



Federation of European Accountants  
Fédération des Experts comptables Européens

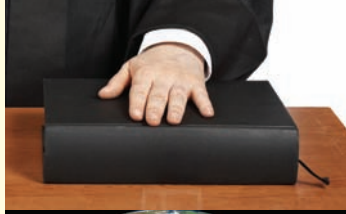


## Ethics and Independence

### Integrity in Professional Ethics

### A Discussion Paper

September 2009



*Standing for trust and integrity*



Federation of European Accountants  
Fédération des Experts comptables Européens

## **Integrity in Professional Ethics**

### **A Discussion Paper**

For comments and responses by 31 January 2010

**September 2009**

*Ethics Working Party*



### **About FEE**

FEE (Fédération des Experts comptables Européens – Federation of European Accountants) represents 43 professional institutes of accountants and auditors from 32 European countries, including all of the 27 EU Member States.

In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 500.000 professional accountants, working in different capacities in public practice, small and big firms, government and education, who all contribute to a more efficient, transparent, and sustainable European economy.



### **Integrity**

*“Being straightforward and honest in professional and business relationships; fair dealing and truthfulness; not being associated with information that contains materially false or misleading statements or information furnished recklessly.”*

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## 1. INTRODUCTION

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1.1. The accountancy profession in much of the world presents its idea of ethical behaviour as comprising five fundamental principles, which together form a framework for behaving ethically in the professional and business sphere. One of these principles is integrity, which FEE believes involves going beyond mere compliance with the law. FEE believes that there is a case to argue that integrity is actually the core principle of professional behaviour, as without integrity, no professional activity can be relied upon.

1.2. This paper seeks to:

- Promote debate about the importance of, integrity in the accountancy profession and business generally; and
- Engage the public in general and stakeholders in the profession in particular, in considering what behaving with integrity in a professional and business context should mean.

The paper also includes a number of practical suggestions as to how integrity is best instilled in professional accountants, whether in practice or in business, and embedded in organisations and suggests measures that professional accountancy bodies might like to consider to reinforce and support integrity.

FEE welcomes your views, particularly in respect of the questions posed throughout the paper. Details of how you can feed back are included at the end of the paper.

1.3. As discussed further in section 2, FEE believes that ethical behaviour is the fundamental driver of the trust and confidence expressed in a business and is a key component of business risk.

1.4. A recent survey<sup>1</sup> confirms that in conditions of economic downturn such as those prevailing in Europe and the rest of the world at the moment, there are increased temptations to sacrifice ethical behaviour for short term gain. Leadership commitment and tolerance of unethical behaviour are both questioned. However, it is in such conditions that the need for ethical behaviour is even greater as trust and confidence are fragile and business risk is great.

1.5. The accountancy profession recognises the importance of ethical behaviour in its codes of ethics and its training. Nevertheless, these codes tend to focus on objectivity and independence and there is little discussion about integrity. FEE believes the concept is understood differently by different people, particularly in an international context, when it is thought about.

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<sup>1</sup> 'European Fraud Survey', Ernst & Young, 2009 ([http://www.ey.com/Publication/vwLUAssets/European\\_fraud\\_survey\\_-\\_2009/\\$FILE/FIDS\\_European\\_fraud\\_survey\\_2009.pdf](http://www.ey.com/Publication/vwLUAssets/European_fraud_survey_-_2009/$FILE/FIDS_European_fraud_survey_2009.pdf))



1.6. This paper adds to the limited discussions on integrity in the context of professional ethics, it notes the importance of integrity to the accountancy profession and of embedding it in the organisations in which accountants operate. It does not seek to be a detailed implementation check-list: behaving with integrity cannot be reduced to a series of box-check procedures. However, it considers the role of accountants and of accountancy bodies and in doing so makes a number of practical observations. It should therefore be of interest to:

- Regulators and professional bodies who set or enforce ethical or other standards for professional accountants and others in business;
- Those who train accountants in ethical matters;
- FEE member bodies; and
- Individual professional accountants who work in, audit, or advise businesses and similar organisations.

#### *General questions*

*Q1. What does integrity mean for you?*

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

*Q3. What are the threats to ethical behaviour?*

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

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

## 2. BACKGROUND

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- 2.1. Much has been written on what constitutes a profession and it is not the intent of this paper to repeat these arguments. However, a 'profession' is characterised by a socially acceptable set of values (or fundamental principles) which are understood and applied by the profession's members.
- 2.2. The Code of Ethics of the International Federation of Accountants<sup>2</sup> (IFAC Code) generally adopts a principles-based approach. That is, underlying the detailed guidance in the IFAC Code is a core requirement that all professional accountants should behave in accordance with five fundamental ethical principles in their professional and business activities. Professional accountants may need to assess potential actions in terms of threats to adherence to those principles and, where necessary, to apply safeguards or refrain from the activity. This is the approach advocated by FEE and adopted in its 'Common Core of Principles for the Guidance of the European Profession' in 1998<sup>3</sup>. FEE believes it is the most appropriate approach for professional accountants and others to use throughout the profession and in other business activities, as it offers numerous advantages over a detailed rules-based approach. For example, it allows for the almost infinite variations in circumstances that arise in practice and prevents the use of legalistic devices to avoid adhering to the spirit of the guidance. The combination of rigour and flexibility of this approach is the most satisfactory way of ensuring that ethical requirements are fully observed in the rapidly evolving modern global economy.
- 2.3. The five fundamental principles in the IFAC Code are: integrity; objectivity; professional competence and due care; confidentiality; and professional behaviour.
- 2.4. The IFAC Code lists all five principles separately. FEE believes that there is a case to argue that integrity is the core principle, as without integrity, no professional activity can be relied upon. Together the five fundamental principles form a framework for behaving with integrity in the professional and business sphere. However, we particularly welcome feedback on this issue.

### *Questions*

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

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<sup>2</sup> Version dated June 2005, revised July 2006 – available at [www.ifac.org/store](http://www.ifac.org/store) (ethics). This is expected to be updated in late 2009.

<sup>3</sup> [http://www.fee.be/publications/default.asp?library\\_ref=4&content\\_ref=1025](http://www.fee.be/publications/default.asp?library_ref=4&content_ref=1025)



### 3. IMPORTANCE OF INTEGRITY

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- 3.1. A distinguishing hallmark of the accountancy profession is its acceptance of its responsibility to take into account the public interest. Integrity and ethics must be at the heart of professional life in order to achieve public trust. In publishing this discussion paper, FEE together with its member bodies aims, therefore, to promote trust and integrity.
- 3.2. In taking into account the public interest, the professional accountant's responsibility is not exclusively to satisfy the needs of individual clients or employers. This is critical because of the need to align the performance of the profession with society's reasonable expectations.
- 3.3. The point was articulated around 400 years ago:

"It's not what we eat but what we digest that makes us strong; not what we gain but what we save that makes us rich; not what we read but what we remember that makes us learned; and not what we profess but what we practice that gives us integrity."

Francis Bacon, *English philosopher and statesman, 1561 - 1626*

- 3.4. The core message has not changed: integrity often refers to a quality of a person's character but is always about 'doing the right thing'. Integrity, therefore, is the cornerstone of professional behaviour. Amongst other things it is essential that the profession, as a whole, retains its reputation for honesty, straightforwardness, fair dealing, and truthfulness: without this, the profession will lose credibility.

#### *Questions*

- 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?*
- 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?*

## 4. MEANING OF INTEGRITY

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4.1. A dictionary<sup>4</sup> definition of integrity is:

- “(1) The quality of being honest and morally upright;
  - (2) The state of being whole or unified;
  - (3) Soundness of construction.
- Origin: Latin integritas, from integer ‘intact, whole’.”

4.2. A dictionary definition<sup>5</sup> of professional integrity is:

“Someone’s high standards of doing their job and their determination not to lower those standards.”

4.3. The IFAC Code notes that:

“The principle of integrity imposes an obligation on all professional accountants to be straightforward and honest in professional and business relationships. Integrity also implies fair dealing and truthfulness.”<sup>6</sup>

4.4. There are many ways to express the term ‘integrity’ so the words we use to express it are not in themselves important. It is the virtue that the term conveys that is important.

4.5. A report<sup>7</sup> by the Institute of Chartered Accountants in England and Wales has identified five related aspects to integrity:

- Moral values, such as honesty;
- Motives, such as desires, interests and ideals;
- Commitments in thought, word and deed;
- Qualities, such as perseverance and courage; and
- Standing fast, even in the face of opposition.

The achievements associated with behaving with integrity apply to both professional integrity and personal integrity. Indeed professional integrity could be considered to be a subset of personal integrity. However there is a key difference: personal integrity covers everything we do while professional behavioural requirements are generally restricted to professional and business activities.

4.6. The rest of this paper focuses on professional integrity. Nevertheless, personal behaviour may be so outrageous as to discredit the profession by association. Exactly what type of personal behaviour would be considered to be outrageous will vary depending on local culture.

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<sup>4</sup> Compact Oxford English Dictionary

<sup>5</sup> Cambridge Advanced Learner’s Dictionary

<sup>6</sup> IFAC Code revised July 2006, paragraph 110.1

<sup>7</sup> ‘Reporting with Integrity’, ICAEW 2007



*Questions*

- 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?*
- 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?*

## 5. BEHAVING WITH INTEGRITY

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- 5.1. There is an expectation from stakeholders that the profession will expect or even demand an ethics-based culture by its members, based around underlying values of integrity, transparency and expertise. In addition it is important for such behaviour to be adopted by all those in the profession and in other business activities, particularly throughout financial reporting chain. This is articulated by two representatives of professional firms and business:

“A good accountant, to add value to society, has to have a number of characteristics. He or she has to have integrity.”

*Glyn Barker, UK managing partner at PricewaterhouseCoopers*

“If you want to have good ethics in the company, the leader must set the example to staff, and one way of doing this is to follow the requirements of a professional body.”

*Li Dun, CFO of Sinochem International*

- 5.2. It seems to FEE that the behavioural characteristics expected of someone behaving with integrity in a professional context should be as follows<sup>8</sup>:
- a. Be straightforward, honest, and truthful (including to oneself). This is an important ingredient of being seen to be credible and reliable;
  - b. Deal fairly. This means behaving in accordance with the norms expected by the profession, or personal values if higher. It includes treating people on the same basis, without bias;
  - c. Comply with the spirit as well as the letter of laws and regulations;
  - d. Take into consideration the public interest;
  - e. Show consistency;
  - f. Be open-minded and open to consider new information and ideas;
  - g. Take corrective action.
- 5.3. Professional accountants should not only behave with integrity but be seen to do so. That is, facts and circumstances should be avoided where a reasonable and informed third party would question the professional accountant’s integrity.
- 5.4. It follows from the above that a professional accountant’s advice and work should be uncorrupted by self-interest or other financial or behavioural motives and should not be influenced by the interests of other parties.

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<sup>8</sup> Based on those included in ‘Reporting with Integrity’, supra.



5.5. Also, in practical terms, professional accountants should not be associated with reports, returns, communications or other information where they believe that the information:

- Contains a materially false or misleading statement;
- Contains statements or information furnished recklessly; or
- Omits or obscures information required to be included where such omission or obscurity would be misleading<sup>9</sup>.

5.6. A practical example of what is described above would be a situation in which the CEO of a company asks an auditor to perform certain agreed upon procedures on a transaction performed by the Company in order to give assurance to the Board that the transaction have been performed as approved.

If the CEO asks the auditor to limit the procedures to those where he knows that no adverse findings will arise it should be clear that an ethical issue arises.

If the auditor considers that the procedures requested are not sufficient for the stated objective, and that it is clear that incorporating other procedures may change the view of the Directors, then he should discuss the situation with the CEO to agree an adequate scope or otherwise he must refuse the engagement.

### *Questions*

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

*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?*

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<sup>9</sup> IFAC Code, version revised July 2006, paragraph 110.2.

## 6. INTEGRITY IN ORGANISATIONS

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6.1. The culture of an organisation has an impact on the way individuals behave within it. It is much easier to behave with integrity if surrounded by a framework that encourages such behaviour. A code of conduct is often a key component of such a framework, if designed and applied properly:

'Codes of conduct must be transformed into powers for good, not primarily toothless forms of chastisement.<sup>10</sup> The codes must become active documents which aim to encourage the professional to accept that 'not everything has a price', that the professional's actions should be founded on a strong premise.'  
Elizabeth Alexander – former CPA Australia national president

6.2. Tone at the top is clearly vital. Organisational integrity is not the result of one action by one individual. The perception of organisational integrity is influenced by a cumulative effect of the integrity exhibited by the individuals within the organisation, though weighted for their apparent level of influence. This creates an identifiable value: the integrity that others inside or outside the organisation perceive as attributable to the organisation.

6.3. This is not a single direction process. The integrity that an organisation is identified as having is not arrived at as a consequence of one decision. It is built up over time (though can be more rapidly destroyed) and is affected by the behaviour exhibited by all the individuals within the organisation. Those with the greatest level of influence are likely to have the most impact, but everyone's behaviour will have an effect.

6.4. Most auditors and other professional accountants work in organisations of some kind. It follows that individual professional integrity and organisational integrity are linked and that the organisational culture is key to the achievement of integrity within the profession.

6.5. The promotion of organisational integrity requires a number of key, interlinked, drivers<sup>11</sup>:

- Leadership, which is particularly important in terms of statement, intent, and action;
- Strategy;
- Policies;
- Information; and
- Culture.

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<sup>10</sup> Severe criticism or punishment

<sup>11</sup> Based on those included in 'Reporting with Integrity', supra.



6.6. The drivers must be interlinked, mutually reinforcing and effective throughout the organisation. This requires determined and energetic management. Professional accountants are often in a position to influence these drivers, although the degree to which they can do this will depend on their degree of seniority and influence.

6.7. To be effective, the ethical values must be embedded within the way the organisation does business. In practice the success of this can be observed through a number of indicators:

- Awareness: an organisation that seeks to have integrity will recognise ethical dilemmas;
- Predictability: an organisation with integrity knows how to act when it faces an ethics dilemma, because it has, and applies, clear ethical values in a consistent and credible manner;
- Transparency: being open and honest about its behaviour;
- Long term view: In organisations with integrity short term actions support long term goals. This implies, for example, creating long term relationships with clients, suppliers and other stakeholders;
- People: there is a commitment to support employees to uphold the organisation's ethical values and to deal with any ethical dilemmas they may face.

6.8. As an example, an audit firm requires all its partners and employees to undergo annual independence training, including a test. A manager finds a way to cheat the system and appears to have passed the test even though he has not done so. The manager shares the procedure with other members of the firm encouraging them to take advantage of this easy way to overcome the obligation. When the firm discovers this it has a clear route that it would be expected to follow:

- Independence is key for any audit firm and acting with integrity is one of the firm's values. Therefore the firm should dismiss the manager, sending a message to the whole organisation that certain behaviours are not permitted by the firm;
- An alternative to dismissal would be disciplinary action, but if this is not generally made public, the firm would need to take additional steps to ensure that the message that certain behaviours are not permitted, is received throughout the firm.

The firm must resist the temptation to take a more pragmatic view and not vary its response even if the manager is a critical resource for ongoing work.

The decision will be assisted by a clear statement of values and means of enforcing them. FEE invites you to reflect on how your organisation would deal with this.

6.9. FEE believes that all organisations should have clear ethical values. This will often be articulated in a code of conduct.



*Questions*

- Q14. Do readers agree with the indicators discussed in 6.7? Are there others, and if so what?*
- 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.*
- Q16. Who should be responsible for ensuring that ethical behaviour is embedded in organisations?*





## 7. ROLE OF INDIVIDUAL ACCOUNTANTS

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- 7.1. The IFAC Code imposes a requirement on professional accountants in business to “encourage an ethics-based culture in an employing organisation that emphasises the importance that senior management places on ethical behaviour”<sup>12</sup>. The extent and nature of that encouragement will clearly vary with the role of the accountant. Senior staff can influence the organisation's tone and policies: junior staff may be able only to ensure that their own conduct sets an example.
- 7.2. Accountants in practice are also in business, so they too have that responsibility within their own organisation<sup>13</sup>. In addition they may be in an advisory role with respect to their clients and stressing the importance of embedding integrity will add value to that advice.
- 7.3. Auditors are responsible for expressing an opinion on the financial statements of organisations, not on their ethical behaviour. However, the extent to which an audit client exhibits integrity may have a direct effect on the extent to which financial information can be relied upon and auditors should consider whether an assessment of the extent to which audit clients have embedded ethical behaviour into their organisations may add usefully to audit evidence.

### *Question*

*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?*

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<sup>12</sup> IFAC Code, revised July 2006, paragraph 300.5

<sup>13</sup> IFAC PAIB Committee Paper of 2007 : ‘Defining and developing an effective code of conduct for organisations’:  
<http://www.ifac.org/Members/Downloads/DefiningandDevelopinganEffectiveCodeofConductforOrgs.pdf>



## 8. ROLE OF FEE MEMBER BODIES

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- 8.1. Like other organisations, FEE member bodies instil standards of professional behaviour in their members through their leadership, strategy, policies, information and culture.
- 8.2. A fundamental principle of integrity, which generally refers to being straightforward and honest, is included in the IFAC Code and most member bodies' codes of ethics. However, while discussion on the principle of integrity clearly includes moral values, the other aspects, as well as the pre-eminence of integrity are not always as evident.
- 8.3. FEE member bodies might want to consider enhancing the discussion about the meaning and value of integrity by publicising this paper or other means.
- 8.4. In addition, in the context of their current contribution to the promotion of integrity, FEE member bodies may also consider:
  - The support they can provide to members if they are disadvantaged as a result of standing up for integrity;
  - The ways in which ethics is taught as part of professional qualifications and on an ongoing basis;
  - Membership pre-entry procedures which assess the integrity of individuals, their moral reasoning and their personal qualities;
  - The requirements and scope of Continuing Professional Development;
  - Helplines and other means of providing ethical advice and support to members; and
  - The transparency of disciplinary processes.

## 9. INVITATION TO COMMENT

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Answers are invited to the following questions with supporting arguments and examples:

### General questions

1. What does integrity mean for you?
2. Is integrity the core principle in professional behaviour? If yes, why?
3. What are the threats to ethical behaviour?
4. How do these threats change as the economic climate changes?
5. How is integrity instilled in your audit firm or your organisation? Does it always work? How could it be improved?

### Questions related to the professional code of ethics and the application thereof

6. 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?
7. Do the other fundamental principles derive from integrity or are they complementary to it? Please explain your rationale?
8. 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?
9. 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?
10. 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?
11. 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?
12. Do you agree with the behavioural characteristics discussed in paragraph 5.2? If not, please explain what should be changed.
13. 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?
14. Do readers agree with the indicators discussed in 6.7? Are there others, and if so what?



15. 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.
16. Who should be responsible for ensuring that ethical behaviour is embedded in organisations?
17. 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?

Unless otherwise stated, responses will be regarded as being on the public record. Consultees should indicate specifically when their responses should be treated as confidential. Standard disclosures in responses received by e-mail will be disregarded for this purpose.

Comments received will be analysed and used by FEE as a basis for decisions on FEE's next steps.

Comments should be sent by 31 January 2010 by e-mail to [hilde.blomme@fee.be](mailto:hilde.blomme@fee.be) or post to:

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