



THE INSTITUTE  
OF CHARTERED  
ACCOUNTANTS  
IN ENGLAND AND WALES

Market Foundations

# REPORTING WITH INTEGRITY

Abstract



# Abstract

Following business scandals in 2001 and 2002 there has been increased interest from regulators, governments and business itself in initiatives which reinforce integrity and enhance trust in business and reporting. Integrity underpins and supports high quality information that is fit-for-purpose. Reliable information is of critical importance to the efficient functioning of markets and the effectiveness of public policy initiatives. Integrity is also vital to the reputation of individuals and organisations and the economic development of nations. Yet, paradoxically, whilst the importance of integrity is widely acknowledged, there is no generally accepted understanding of what it means.

The purpose of this report is to look at what integrity is and why it is important not only in its own right but also for economic activity in general and business reporting in particular. In order to obtain a more comprehensive understanding of what is meant by integrity, both as a concept and in practice, the report brings together ideas from a variety of disciplines. Moreover, because this report sees reporting with integrity as a joint endeavour of individuals, organisations and professions, including the accounting profession, the concept of integrity is considered in all these contexts. This report is innovative and challenging in that it sets out how integrity – which is essentially a personal quality – can be promoted through organisations, including professional bodies.

A useful starting point is to refer to the origin and historical development of the word. It is derived from the Latin word *integritas* which has a variety of meanings ranging from correctness of language, chastity, innocence and purity to the undiminished or unimpaired condition of an object or whole. The literature of modern moral philosophy in the English language gives substance to this idea of wholeness and collectively captures many commonly understood meanings of integrity. From this literature we highlight five key aspects of integrity summarised in figure 1.

**Figure 1: Aspects of integrity**

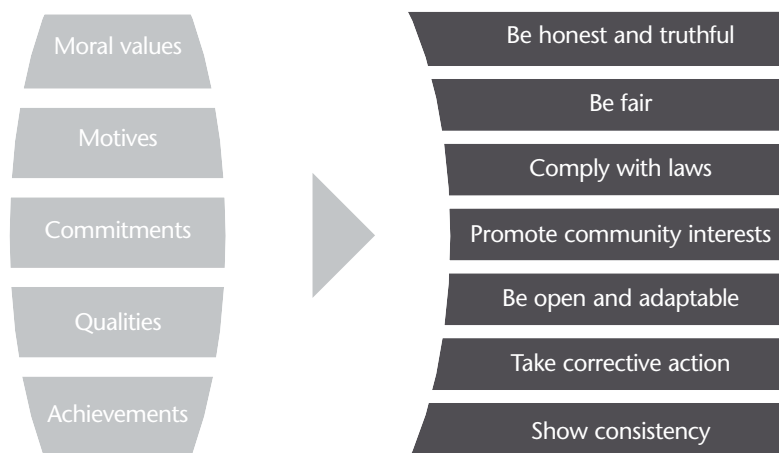


An individual of integrity is guided by moral values and motives which are translated into commitments. Such an individual draws on qualities such as rationality and openmindedness to assess what the right thing to do is from a wider community perspective. An individual's commitments in pursuit of doing the right thing are also likely to require personal qualities, including perseverance and courage, if they are to lead to the hard-won achievements expected of individuals of integrity.

Integrity is special because all its aspects need to be linked and aligned in a consistent manner to form a whole. This wholeness or congruence may be easy to express, but it is difficult to put into practice since many disparate factors influence behaviour. Personal, social, organisational and environmental factors influence judgements and decisions that are reflected in behaviour, and potentially, in achievements that evidence integrity. Whilst it is helpful to list the characteristics which are usually linked to behaving with integrity, there will always be ambiguity when evaluating whether or not an individual has integrity. Integrity is not something that is generally self-assessed; it relies on the assessment of an observer who may be influenced by their own beliefs and expectations of how a person of integrity ought to behave. Such an observer will also have limited knowledge of another person's moral values, motives, commitments, qualities and achievements even though these are crucial to judging whether that person is behaving with integrity.

Nevertheless, the report proposes that a person of integrity will be likely to demonstrate the following behavioural characteristics as illustrated in figure 2.

**Figure 2: Behavioural characteristics of integrity**

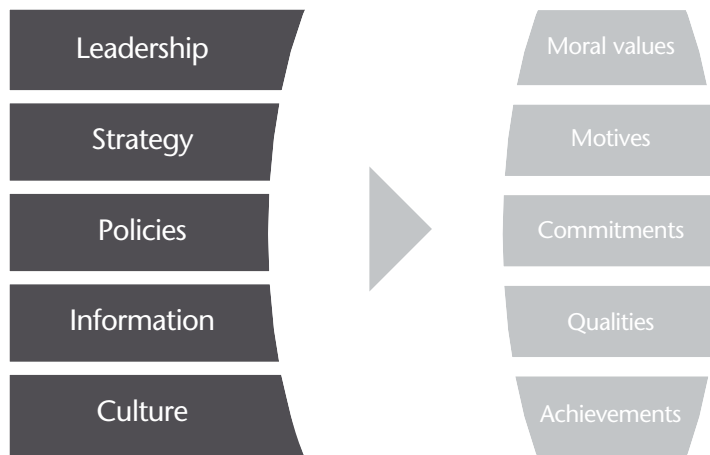


Consistency is a particularly challenging behavioural characteristic given the ability of people to compartmentalise different areas of their life.

Integrity is a quality that is ascribed to individuals and their behaviour and it is also applied directly to organisations and their behaviour. Achieving the five aspects of integrity is challenging for an individual but it is even more difficult for an organisation. An organisation, because it is a collection of individuals, needs a robust framework that links individuals to a common view of the organisation's moral values, motives, commitments, qualities and achievements.

The report proposes five drivers of organisational integrity as shown in figure 3.

**Figure 3: Drivers of organisational integrity**



The drivers need to be interconnected with each other, mutually reinforcing and effective throughout the organisation. This requires determined and energetic management. Although the drivers are relevant to organisations of all sizes and in all sectors, it is clear that there are no one-size-fits-all answers and that managers need to exercise judgement in deciding what will be effective in their organisation.

Professional bodies should be expected to instil integrity in their members through their leadership, strategy, policies, information and culture. Professional bodies promote integrity in professions, including the accounting profession by, amongst other things, setting out standards to which members are expected to adhere. A fundamental principle of integrity, which generally refers to being straightforward and honest, is included in a substantial number of professional accounting bodies' codes of ethics. However, while the principle of integrity includes moral values, the other aspects of integrity – motives, commitments, qualities and achievements – are only evident when looking at the more detailed ethical guidance within codes of ethics. Even then, the links to integrity are not always obvious.

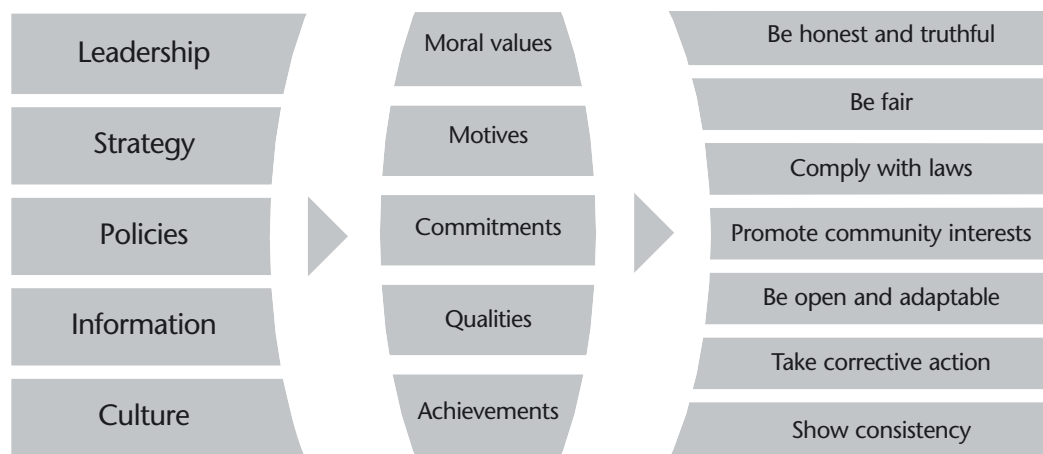
In the light of the analysis in this report, professional accounting bodies might want to accord pre-eminence to integrity over other fundamental ethical principles and explicitly incorporate motives, commitments, qualities and achievements into their definition of integrity. Moreover, in the context of their current contribution to the promotion of integrity, professional accounting bodies also need to keep under review:

- the support and financial assistance they can provide to members if they are disadvantaged as a result of standing up for integrity;
- pre-entry requirements which assess the integrity of individuals, their moral reasoning and their personal qualities;
- the requirements and scope of continuing professional development (CPD);
- the transparency of disciplinary processes;
- helplines and other means of providing ethical advice and support to members; and
- the balance of the content of professional qualifications and the ways in which ethics is taught.

The overall process of financial reporting in a country or market is a complex web of interactions, communications and discussions between individuals in different organisations including many who do not work for reporting entities. An overall reporting process with the integrity to inspire confidence will be seen to be honest and truthful, to be fair, to comply with laws, to promote community interests, to be open and adaptable, to take corrective action and to show consistency.

Integrity in reporting needs to be underpinned by moral values such as honesty, motives such as a desire to inform, commitments to the interests of shareholders and others, qualities such as scepticism and perseverance, and achievements in the face of opposition. Reporting with integrity relies on reporting entities, audit firms, professional bodies and other organisations taking steps to promote integrity through their leadership, strategy, policies, information and culture. The framework for promoting integrity across a complex reporting chain is represented in figure 4.

**Figure 4: Framework for reporting with integrity**



Public policy mechanisms that link together the various organisations involved in reporting include requirements and prohibitions enshrined in legislation and regulation. Whilst these can be a great source of strength for individuals of integrity, there is a risk of externally imposed regulation dissolving the very notion of integrity and its sense of identity and standing for something. The accounting profession therefore continues to have a central role to play in instilling integrity across the reporting process. Professional bodies also have a crucial responsibility to develop and support individuals of integrity who set a broader example within the organisations and societies where they make their contribution.

