

Following the publication of the FEE Discussion Paper, 'Integrity in Professional Ethics', the ACCA has received a number of comments from its members and other stakeholders. These comments are summarised in this document.

The ACCA has taken account of these comments and has revised the Discussion Paper accordingly. The revised Discussion Paper is available on the ACCA website at www.acca.org.uk.

FEE Discussion Paper: Integrity in Professional Ethics

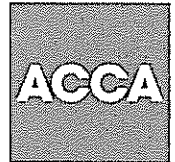
Comments from ACCA
January 2010



ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

ACCA works to achieve and promote the highest professional, ethical and governance standards and advance the public interest. We support our 131,500 members and 362,000 students throughout their careers, providing services through a network of 80 offices and centres.

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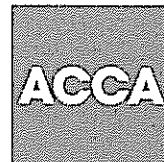


General Comments

1. *ACCA welcomes the opportunity to comment on this discussion paper.*
2. *The paper does not make it clear what the intended outcome of the discussion paper is, although it states that the discussion paper itself seeks to promote debate. There is no stated intention to issue a further paper following the discussion period, and so our comments are restricted to the issues highlighted in the paper.*
3. *The discussion paper is useful given its focus on a principles-based integrity. However, care should be taken not to give the impression that integrity can be easily defined or measured. There is risk of this in sections of the discussion paper that may be said to 'over-engineer' explanations of subjective terms such as 'fair'.*
4. *The philosophy of ethics remains a dynamic area of research. The professional bodies recognise the importance of learning about professional ethics and maintaining knowledge and understanding throughout the professional accountant's career. However, any changes to the ethical codes of professional bodies should be grounded in current research.*
5. *The press release issued with the discussion paper makes two important statements that we believe to be at the heart of the discussion concerning integrity, namely:*
 - (i) *'... the concept is understood differently by different people, particularly in an international context ...'; and*
 - (ii) *that integrity is 'always about "doing the right thing" and being understood as doing the right thing.'*
6. *Para 2.1 states the importance of a socially acceptable set of fundamental principles being understood by a profession's members. It is important to recognise that these ethical values must also be understood by other stakeholders.*
7. *Furthermore, the paper fails to mention that in some countries, like the UK, the term 'accountant' is not protected. This can hurt a profession,*



because users of accountancy services may not appreciate that unregulated practitioners are not required to work within a strict ethical framework.



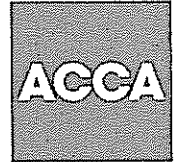
Questions set out in the discussion paper

Q1 – What does integrity mean for you?

8. *We fully support the comment in paragraph 1.6 that behaving with integrity cannot be reduced to a series of box-check procedures.*
9. *To act with integrity is to do what one considers to be 'the right thing'. This will require the application of personal ethical values (which will vary between individuals) and competence in gathering information and evaluating different possible courses of action. Therefore, integrity is a principle to be upheld at all times, and care should be exercised, when developing guidance or codes of conduct, to ensure that these do not become prescriptive.*
10. *Integrity is often interpreted as being trustworthy and honest. However, principles such as these can be interpreted, applied and measured differently by different people. For example, honesty and trustworthiness may be considered to be the most significant personal qualities of, say, public leaders, but the public also wants them to be efficient and competent.*

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

11. *In order to consider this question fully, one must clearly distinguish between personal integrity, professional integrity and organisational integrity. Without personal integrity, the threat to all the fundamental principles brought about by self-interest is heightened. However, it could be argued that other fundamental principles similarly have an impact on the security of the fundamental principles generally. For example, without professional competence and due care, threats to the other fundamental principles cannot be effectively managed.*
12. *It is understandable that many people would consider integrity to be the core principle in professional behaviour. However, we would question whether, by making one of the fundamental principles 'core', the other*



fundamental principles might be perceived as relegated to a lower tier. A principles-based approach calls for professional judgement and for the professional to rank and apply each of the fundamental principles based on the prevailing circumstances. All the principles need to be applied and all will interlink. They work and link together to help the professional to 'do the right thing' and be seen to be 'doing the right thing'.

Q3 – What are the threats to ethical behaviour?

13. *In a business context, threats to ethical behaviour emanate from a competitive environment and the need to succeed or merely survive. This might be at an individual or organisational level. The threats might be more significant in times of economic downturn. Success is frequently measured in financial terms, and so the threat to ethical behaviour will often take the form of pressure to report favourable results, either internally or to external stakeholders. At a recent ACCA 'Leadership in Public Finance' event (October 2009), 65% of participants perceived that fraud and corruption were on the increase.*
14. *Considering this question more broadly, ACCA recognises the five categories of threat detailed within the conceptual framework approach of the IFAC Code. We believe that any threat to ethical behaviour will fall into one or more of these categories.*

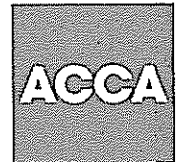
Q4 – How do these threats change as the economic climate changes?

15. *As explained above, it appears reasonable to assume that there would be an increase in the threat posed by self-interest (stemming from an increased motivation to safeguard one's own interests) as the economic climate becomes more challenging. However, it is impossible to objectively assert that these threats will abate as the economic climate improves, as it would be difficult to show a causal link.*

16. *In fact, it is often the case that economic upturn brings about a renewed spate of corporate failures due to demands on working capital. The threats to ethical behaviour may be heightened during this period, as those responsible for presenting the figures are pressurised to show both growth and solvency. This situation is illustrated by the former chief executive of Enron, Jeffrey Skilling, who reportedly told his chief financial officer, Andrew Fastow, to 'give me all the juice you can' on earnings. Fastow himself alluded to the threat to his integrity when he said in court 'I thought I was being a hero'.*

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

17. *No individual or organisation can make anyone act with integrity. Acting with integrity means acting in accordance with one's conscience, and so doing what one considers to be 'the right thing'. An individual's conscience is a personal and unique thing. Whilst appropriate training can equip an individual to act ethically, and organisational policies can motivate an individual to demonstrate ethical behaviour, an individual's integrity cannot easily be influenced.*
18. *One's personal experiences will affect one's perception of integrity. For example, what is acceptable to one person may not be acceptable to another because the latter has been used to being treated better in the past.*
19. *Therefore, integrity within an organisation is enhanced by employing ethical individuals, and considering integrity as part of the promotion process. Of course, other measures used to promote integrity, such as promulgating a corporate code of ethics and providing a whistleblowing facility, are also important. This is discussed further under question 15 below.*
20. *ACCA and the other accountancy bodies require a high ethical standard of their members. In addition to its Code of Ethics and Conduct, ACCA strives to maintain an ethical culture internally through the use of a staff handbook and a programme of presentations and workshops supported and attended by ACCA's Executive Team. The staff*



handbook sets out policies and procedures in respect of a number of areas, including disciplinary procedures, equal opportunity and diversity, bullying and harassment, confidentiality, objectivity, performance management, whistleblowing, timekeeping, etc. This mechanism supports ACCA's publicly stated core values of opportunity, diversity, innovation, accountability and integrity.

21. *While clearly stating the ethical standards required within the organisation is important, this will be more effective if senior personnel within the organisation demonstrate the importance of those standards and their own compliance with them ('tone at the top').*

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?

22. *As previously stated in respect of question 2, by referring to one of the fundamental principles as 'core' the other fundamental principles would appear to be moved to a lower tier. A principle-based approach to addressing ethical problems calls for professional judgement, and may require the professional to rank and apply each of the fundamental principles based on the prevailing circumstances.*
23. *It could be argued that integrity is unique in that, in order to act with integrity, all the other four fundamental principles must also be complied with. However, in view of the fact that all five fundamental principles must always be complied with, this argument is irrelevant.*
24. *It could also be argued that, in order to adhere to the other four fundamental principles, one must act with integrity. However, the same could be said of the principle of professional competence and due care, and so no fundamental principle is unique in this respect.*
25. *The dictionary definition of 'professional integrity' is set out in paragraph 4.2 of the paper, and suggests a clear link between integrity and competence.*



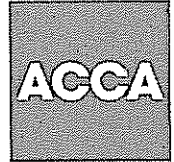
26. *Therefore, whilst it could be argued that integrity is a core principle, we would not agree that it is the core principle. It might be said that integrity and professional competence and due care are the two core principles that are required to be observed in order to successfully comply with the other three. However, care should be taken not to dilute the importance of safeguarding all five fundamental principles.*

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

27. *As explained under 26 above, it may be argued that, of the five fundamental principles, two are core, namely integrity and professional competence and due care. Compliance with the other three fundamental principles derives from a good understanding of the IFAC Code (ie professional competence), applied with integrity, including due care. However, the framework provided by the IFAC Code is still essential, as professional accountants need resources to be able to understand how to exercise objectivity, professional behaviour and confidentiality. Compliance with these three fundamental principles would not otherwise happen automatically.*

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?

28. *The paper quotes Francis Bacon, who said that it is 'what we practice that gives us integrity'. When considering the public interest and public confidence, the public should be entitled to expect a certain standard of behaviour from a professional accountant. The character of that person is not easily perceived by the public, and is of no importance to them.*
29. *However, the expected behaviour of a professional accountant may vary in different parts of the world. That is not to say that FEE should demand different standards of behaviour from members of different*



member bodies. Rather, that ethical standards will be interpreted differently in different areas, but the fundamental principles should remain the same the world over.

30. *The character of the individual will be relevant in respect of the disciplinary process only under limited circumstances. It is conceivable that a breach of the fundamental principle of integrity may arise from a momentary instance of poor judgement. In this case, one's character could be deemed to mitigate the breach.*

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?

31. *History appears to demonstrate that a perceived lack of integrity within a profession as a whole has a negative impact on the perception of the integrity of individual members of that profession. However, we do not believe that it has an impact on the ethical standards of individuals that members of the public are entitled to expect. Regulators have a role to play in making it clear that high ethical standards are expected of the profession, regardless of any high-profile instances of misconduct within it, and disciplinary processes should neither be harsher nor more lenient as a result of public pressure.*

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?

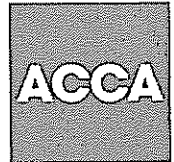
32. *There is a danger that further discussion on integrity will lead the reader to perceive that integrity can be narrowly defined. However, we agree that an assessment of an individual's integrity requires consideration beyond the actions perceived by others. For example, an action may be assumed to result from a lack of integrity, but further investigation may suggest a lack of competence instead. We feel it would bring about*



confusion to include such discussion in the codes of ethics of accountancy bodies.

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?

33. *The benchmark regarding ethical behaviour is set out in the fundamental concept of professional behaviour, namely that it should not negatively affect the reputation of the profession. Beyond this, it is impossible to predict what standard of behaviour might affect the reputation of the profession in each region of the world. However, we believe this benchmark is easy to apply in respect of the fundamental principle of integrity, which in this case would be assessed in conjunction with compliance with the principle of professional behaviour. For example, if an individual's personal integrity was lacking, with the result that his or her behaviour was publicly reported, together with the fact that the individual was a professional accountant, it is assumed that the reputation of the profession could be tarnished.*
34. *However, we believe that greater clarity will not be achieved through extensive explanation and examples within professional codes of conduct.*
35. *If clarity is to be provided in the form of guidance issued by professional bodies, such guidance might also cover the other fundamental principles to some extent. That of professional competence and due care would be particularly important. The guidance should explicitly state that a core requirement of the professional accountant is to ensure that they are competent in applying the conceptual framework when faced with an ethical dilemma. Clearly, a call for professional accountants to have considered ethics and current ethical best practise as part of their continuing professional development would be useful.*



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

36. *We would agree that the behavioural characteristics of someone behaving with integrity would include those listed in paragraph 5.2. However, the list becomes more open to challenge if subjective terms such as 'fairly' are defined. As stated under 5 above, the concept of integrity is understood differently by different people, and whilst the list of characteristics is useful, the terms within it should not be over-engineered.*

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?

37. *We would be in favour of including in the list, other fundamental characteristics such as confidentiality, respect for others and the need to maintain competence. These characteristics are derived from the other fundamental ethical principles. However, any implication that the list of characteristics is intended to be exhaustive should be avoided.*

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

38. *We agree with the suggested indicators of success that ethical values have been embedded within an organisation. However, additional indicators may include proportionality, ie the organisation must be seen to be fair, so that there is respect for its ethical policies and procedures.*

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.

39. *It is hoped that this discussion paper will enhance integrity in professional ethics in respect of both individuals and organisations. It is agreed that the culture of an organisation has an impact on the way individuals behave within it. This is for two main reasons:*

(i) *The organisation requires individuals within it to meet a certain standard of behaviour.*

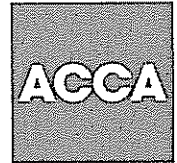
(ii) *The organisation (ie senior personnel) lead by example.*

40. *Development of an ethical code by the organisation assists with the first of these, but itself puts pressure on the organisation (and its senior personnel) to act fairly and in accordance with the code. If this is not achieved (and perceived as being achieved), the second bullet point will not be achieved, and the overall effect of the organisation's ethical code will be negative. This is because individuals within the organisation will be discouraged, and there will be a lack of respect for the code.*

41. *We believe that all organisations should have a code of conduct, although it may be referred to by an alternative name. In very small organisations, it may be inappropriate to circulate written policies and procedures. Nevertheless, all organisations should strive to develop an ethical culture through a consistent approach to resolving ethical issues.*

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

42. *Where the development of a code of conduct for the organisation is appropriate, the involvement of staff at all levels may have a favourable impact on the code's credibility and acceptance. However, the embedding of ethical behaviour within the organisation can only come about through the actions of senior personnel. They should be*



responsible for communications within the organisation regarding the development and application of any code of conduct; the disciplining of staff must be at the appropriate level and seen to be fair; and senior personnel themselves must be seen to be complying with the code or otherwise demonstrating ethical behaviour.

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?

- 43. It is part of the role of professional bodies to assist their members in acting ethically. It will be easier for an individual within an organisation to act ethically if such action is supported by the organisation and by the ethical culture within it. Therefore, if a professional accountant helps to promote an ethical culture within the organisation in which they work, they will benefit from the ethical culture within the organisation. However, more fundamentally, a professional is required to act in the public interest, and so promoting an ethics-based culture within the organisation in which they work is to be expected of them.*
- 44. Guidance on how to create an ethical culture, including the indicators of success, should be clearly identified as such, and should be kept outside the codes of conduct of professional bodies. ACCA has created a resource to assist with creating and managing a code of conduct (www.accaglobal.com/members/professional_standards/ethics). Guidance is also freely available from the Institute of Business Ethics. Professional accountants look to their professional bodies to provide guidance. However, such guidance should avoid the appearance of being prescriptive, as a one-size-fits-all solution is clearly not available, and it should be developed with a view to the guidance already issued.*



