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Dear Hilde,

## **Response to FEE Discussion Paper: Integrity in Professional Ethics**

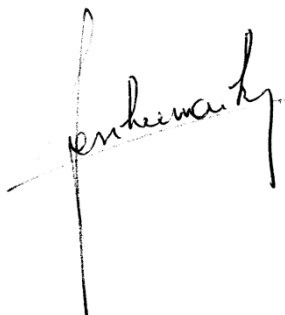
I am pleased to respond on behalf of the member firms of Deloitte Touche Tohmatsu in the European Union to the discussion paper issued by FEE on integrity in professional ethics.

We welcome discussion of this topic and believe that further discussions with international associations of accountants/accountancy bodies, such as FEE, on promoting an ethics-based culture in organisations would be useful.

Please find enclosed replies to the questions set out in the discussion paper.

If you have any questions on any of the points in this response, please do not hesitate to contact me at +32 2 600 6537.

Yours sincerely,



Hendrik Descheemaeker  
Partner

## Response to FEE Discussion Paper: Integrity in Professional Ethics

### Q1. What does integrity mean for you?

The member firms of Deloitte Touche Tohmatsu in the European Union (“Deloitte”) believe integrity combines the concepts of honesty and consistent adherence to ethical standards in behavior and decision-making. Integrity is one of Deloitte’s shared values and ethical principles and encompasses:

- Applying standards of professional conduct to all activities with clients and communities. This includes respecting laws, regulations and confidentiality.
- Behaving in a manner that answers to the reasonable expectations of the stakeholders of our professions. This includes developing trustworthy information and being straightforward and honest in our professional and business relationships.

### Q2. Is integrity the core principle in professional behavior? If yes, why?

Deloitte believes integrity is a key and overarching principle in professional behavior. Without integrity there can be no trust, and without trust there can be no effective or reliable professional activity.

### Q3. What are the threats to ethical behavior?

Threats to ethical behavior are defined in the IFAC Code of Professional Ethics for Accountants and include self-interest, self-review, advocacy, familiarity and intimidation.

These threats, whether explicit, implicit or simply perceived, can have a real and significant impact on ethical behavior, and therefore the implementation of an approach that would allow an individual to properly identify and manage potential threats would be important.

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

Threats to ethical behavior can increase and decrease due to a variety of factors including changes in economic climate.

Deloitte believes an organization must rigorously and explicitly motivate and sustain ethical culture **at all times** - keeping the importance of integrity and professional behavior top of mind for all its people no matter the economic climate.

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

Deloitte works to motivate and sustain an ethical culture through many mechanisms including:

- Leadership commitment/tone at the top
- Ethics and independence infrastructure (roles, budgets, responsibility/authority)
- Ethical principles, code of conduct, independence policies
- Training and awareness building
- Confidential channels for reporting potential ethics related issues
- Disciplinary policy
- Leadership reporting/oversight
- Ethics surveys/measurement to facilitate continuous improvement

- Ethics built into talent management processes (recruiting, performance management, promotion)
- Ethical risk assessment

**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 (*integrity; objectivity; professional competence and due care; confidentiality; and professional behavior*)? If not, why not?**

As stated in Q2, Deloitte believes integrity is a key and overarching principle in professional behavior and should be highlighted as such because in the absence of integrity the other principles cannot be trusted or accepted.

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

Deloitte believes that the other fundamental principles exemplify integrity and can be seen as necessary applications of the principle of integrity in professional behavior, e.g., an audit can only be carried out with integrity if professional competence and due care are used, or an audit opinion can only be issued with integrity if objectivity has been maintained.

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

In Deloitte's view the quality of a person's character can only be judged objectively on the basis of the **observable** actions carried out by that person, including the views, opinions and thoughts expressed by that person in writing or in speech as well as any failure to act.

In the disciplinary process, it would seem that a person whose actions are consistent with expected standards should not be sanctioned, but we accept that there may be exceptional circumstances where an individual has met standards but nonetheless acted in a professionally unethical manner. In these situations and any disciplinary process, extreme caution should be shown before determining that a person whose actions are consistent with expected standards has nonetheless committed a fault and should be sanctioned.

The disciplinary process is event and fact driven – not character driven. One should not make assumptions about the character of the individual – but instead, focus assessments on the behavior, the motive or intent, the impact on stakeholders, the history of such behavior and the potential for future missteps.

**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?**

Deloitte believes that the **perceived** integrity of the profession as a whole certainly has an impact on the **perceived** integrity of the individuals within the profession, but not necessarily the **actual** integrity of any given individual.

The importance of the direct relationship between the profession and the professionals within it should not be understated. They are dependent on one another to build and maintain trust and reputation, and therefore, ensure sustainability of the profession over time.

With respect to the disciplinary process, Deloitte believes that clarity in the definitions of expected behavior is critical – whether it be the behavior of organizations or individuals. Disciplinary processes should be developed based on those expectations.

**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?**

Yes, it would be helpful for codes of ethics of accountancy bodies to include further discussions on integrity. Key points to include:

- Impact/importance of integrity on professional trust /reputation
- Respect for both the letter and spirit of the law
- Professional responsibility to a variety of stakeholders (particularly the public interest)
- Effect of personal behavior on professional integrity

**Q11. Should there be greater clarity of the extent to which personal integrity would affect professional integrity, to enhance harmonization? What sort of personal behavior should merit professional disciplinary action?**

While this is clearly a sensitive area as it touches upon individual privacy, Deloitte nevertheless believes more discussion and clarity around the links between personal integrity and professional integrity would be valuable for the accounting profession as it may give insights into character and is observable and objective.

We believe that behavior found by criminal or regulatory bodies to violate applicable laws, rules or standards, and in particular those that involve **abuse of professional trust**, are the type of personal behavior that should merit professional disciplinary action.

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

Deloitte agrees with the characteristics discussed in paragraph 5.2 as descriptions of behaving with integrity in a professional context. Our comments relate to the following characteristics:

f. Be open-minded and open to consider new information and ideas

Deloitte believes open-mindedness is actually one element of “taking informed decisions” which, to us, is the more critical characteristic of behaving with integrity in a professional context.

On point c. in paragraph 5.2:

c. Comply with the spirit as well as the letter of laws and regulations

Given the risk of conflict of laws and regulations in international situations, FEE may want to consider adding the term “applicable” to this item – “comply with spirit as well as the letter of applicable laws and regulations.”

**Q13. Are there further behavioral 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?**

Additional behavioral characteristics that may be appropriate to add to the list include:

- Willingness to consult/seek expert advice to get to the best answer
- Taking informed decisions (encompasses reporting/developing trustworthy information and researching an issue to determine facts and views)

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

Deloitte agrees with the indicators and suggests some changes to the existing wording:

1. Recommend changing “Awareness” to “Sensitivity.” Organizations with integrity have ethical sensitivity and are able to recognize dilemmas when they arise.
2. Recommend changing “Predictability” to “Consistency.” The focus should be on applying ethical values and ethical decision-making frameworks consistently across an organization to build ethical culture.

Deloitte believes other indicators that show ethical values have been embedded in an organization include:

- Ethical courage: organizations with integrity give leaders/personnel confidence to raise their voice and express concerns about possible unethical behavior

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

Deloitte agrees that ethical principles and/or a code of conduct are vital tools to define and communicate expectations of ethical behavior in an organization, and therefore, should be present in all professional organizations. We would argue that even the smallest organizations should be able to clearly define and communicate the ethical values or principles that are critical to their organization’s sustainability and success, though we do recognize that the magnitude of culture-building effort/activity will differ based on the size and scope of the organization.

**Q16. Who should be responsible for ensuring that ethical behavior is embedded in organizations?**

Ethical behavior can only be embedded in an organization when there is personal responsibility and organizational commitment/support. Personal responsibility to live out ethical values and comply with policies and codes of conduct must come from all personnel in an organization. Each individual must feel responsible to safeguard and protect the reputation of the organization and of the profession itself.

Without organizational commitment/support, however, this personal responsibility can be seriously undermined. An organization must clearly define its expectations of behavior through policies, values, and codes of conduct. The organization must communicate these expectations to all levels of personnel. The organization must have leaders that speak to the importance of ethics and integrity and make decisions based on the values and principles of the organization. In addition, there must be channels available for individual to raise issues, and processes to ensure full and fair investigations.

Organizational support provides the foundation for personal responsibility because it builds ethical courage, which is the willingness to stand up for what is right, because one knows the organization stands behind one.

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

Yes, it is reasonable to expect professional accountants to promote a culture based on professional/ ethical values in their organizations and we believe that additional guidance from international associations of accountants/accountancy bodies such as FEE could be helpful in this regard.

Points to be considered for inclusion in this guidance:

- Role of leadership (executive/governance) in motivating/sustaining an ethical culture
- Ideas/recommendations for ensuring a culture of “no reprisals” when it comes to reporting ethical issues
- Ethics learning framework
- Ethical risk assessment
- Examples and best practices of how these things are being done in organizations across the globe

In this response, “Deloitte” refers to the member firms of Deloitte Touche Tohmatsu in the European Union. Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms are each a legally separate and independent entity. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms.