



05 February 2010

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Fédération des Experts comptables Européens (FEE)  
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**By email: [hilde.blomme@fee.be](mailto:hilde.blomme@fee.be)**

Dear Mrs Blomme,

**Re: Integrity in Professional Ethics: A Discussion Paper**

Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to make a submission on FEE's Discussion Paper *Integrity in Professional Ethics* (Discussion Paper).

**Background to APESB**

APESB was established in February 2006 as an initiative of the Institute of Chartered Accountants in Australia (ICAA) and CPA Australia. In November 2006, the National Institute of Accountants (NIA) was admitted to the APESB. APESB is an independent standard setter with the primary objective of developing and issuing, in the public interest, appropriate professional and ethical standards which apply to the membership of the three professional accounting bodies in Australia. A secondary objective of the APESB is to provide the opportunity or forum for the discussion and consideration of issues relating to professional standards for accountants.

**Overall Comment**

We are supportive of the initiative of FEE in publishing a Discussion Paper which raises a wide range of ethical issues for public consideration. We believe that the Paper acts as a starting point for a more thorough consideration of the issues raised which are complex and intrinsically linked. This further careful consideration needs to be done before proposing any changes to ethical codes such as the *Code of Ethics for Professional Accountants* prepared by the International Ethics Standards Board of Accountants of the International Federation of Accountants (IFAC Code). We note that the Discussion Paper makes a number of assertions, however, it is not evident how these have been developed, and the extent to which these assertions are supported by evidenced based research.

## APESB responses to issues raised in the Discussion Paper

Our responses to issues raised in the Discussion Paper on which we are best positioned to provide a response are as follows:

### Issues raised in FEE's Discussion Paper

- Is integrity the core principle in professional behaviour? If yes, why?
- What are the threats to ethical behaviour?
- 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?
- Do the other fundamental principles derive from integrity or are they complementary to it? Please explain your rationale?

### APESB Response

While integrity is an important fundamental principle of the IFAC Code, the notion that it is “the core principle in professional behaviour” has been presented in the Discussion Paper without providing evidence based research to support this assertion. The requirements of the IFAC Code are structured around five robust fundamental ethical principles to guide the behaviour expected from professional accountants. The principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour are all important ethical principles in their own right and as a combination provide a practical framework for application by professional accountants. APESB supports this approach taken in the IFAC Code and this has also been adopted in Australia in developing the requirements of the Australian Code APES 110 *Code of Ethics for Professional Accountants*.

The IFAC Code also provides a robust framework which identifies threats (and respective safeguards) to compliance with the five fundamental ethical principles identified above. Paragraph 100.12 of the IFAC Code provides:

“100.12 Threats may be created by a broad range of relationships and circumstances. When a relationship or circumstance creates a threat, such a threat could compromise, or could be perceived to compromise, a professional accountant's compliance with the fundamental principles. A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one fundamental principle. Threats fall into one or more of the following categories:

- (a) Self-interest threat — the threat that a financial or other interest will inappropriately influence the professional accountant's judgment or behaviour;
- (b) Self-review threat — the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made or service performed by the professional accountant, or by another individual within the professional accountant's firm or employing organisation, on which the accountant will rely when forming a judgment as part of providing a current service;

- (c) Advocacy threat — the threat that a professional accountant will promote a client's or employer's position to the point that the professional accountant's objectivity is compromised;
- (d) Familiarity threat — the threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work; and
- (e) Intimidation threat — the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the professional accountant.

Parts B and C of this Code explain how these categories of threats may be created for professional accountants in public practice and professional accountants in business, respectively. Professional accountants in public practice may also find Part C relevant to their particular circumstances.”

While we do not dispute FEE's assertion that “ethical behaviour is the fundamental driver of the trust and confidence expressed in business and is a key component of business risk”, the Discussion Paper provides no evidence based research on why “integrity” is the most important ethical principle compared to the other four principles (objectivity, professional competence and due care, confidentiality and professional behaviour). Further, it is not clear what benefits would result from elevating the status of one of the five principles identified in the IFAC Code or for that matter placing different weighting on these five principles. The five principles are linked, and while one may have more relevance in a particular ethical scenario, that does not justify it being given greater importance generally.

FEE asserts that “integrity is the core principle, as without integrity, no professional activity can be relied upon”.

We would like to draw your attention to a proposition put by Shulman for the Carnegie Foundation. Shulman identified three fundamental and critical aspects of all professional preparation: thinking like a professional (training the head), performing like a professional (training the hand), and acting with professional integrity (training the heart).<sup>1</sup> Acting with integrity is a focus of one dimension but importantly it is the balance of the three dimensions that Shulman identifies as key to the behaviour of a professional under the model he puts forward.

While there may be some merit in the assertion that the principles of objectivity, professional competence and due care, and professional behaviour could be derived from integrity, this assertion requires detailed exploration including conducting evidenced based research to support the assertion.

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<sup>1</sup> LS Shulman, ‘Signature pedagogies in the professions’, *Daedalus*, Summer, 2005.

### Issues raised in FEE's Discussion Paper

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

### **APESB Response**

Professional ethics is particularly important for professional accountants. The public's reliance on accounting information depends on the integrity of those who prepare, report and provide assurance (including audits) on that financial information. The integrity of the profession is at risk if individual members act unethically – it is the case of the profession potentially being tarred by the brush of one unethical individual. To add complexity to this issue, in some jurisdictions, such as Australia, individuals are able to call themselves accountants and provide services to the public despite not having a professional qualification from a professional accounting body. These individuals are also not bound by the requirements of ethical codes such as the IFAC Code or the national code in that jurisdiction.

Furthermore, the difficulty is that no matter how stringent frameworks of behaviour are, not all individuals will be motivated to comply and act ethically. In this respect, the Preface of Part A (General Application of the Code) of APES 110 states that:

“Members should be guided, not merely by the terms, but also the spirit of this Code. Members should be prepared to justify to their professional body, if called upon, any apparent departure from any of the provisions and spirit of this Code.”

A principles based approach is therefore preferred over drafting requirements and guidance which has the potential to become voluminous in an attempt to address all circumstances encountered by professional accountants. We therefore find merit in the statement in the Discussion Paper that “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”.

Perhaps more benefit would come from focussing on the continuing education of professional accountants in the need to exercise professional integrity. Formal training for professional accountants seems to be limited to their tertiary training and as part of professional bodies' courses, however ongoing development is a personal onus rather than a necessary professional endeavour.<sup>2</sup> Extending Shulman's view (discussed above), he noted that professional education must adequately cover all three aspects – mind, hand and

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<sup>2</sup> J Flanagan, “Values, code of ethics and the law”, The Institute of Chartered Accountants in Australia, June 2006 ([http://www.charteredaccountants.com.au/files/documents/ethics\\_paper\\_final.pdf](http://www.charteredaccountants.com.au/files/documents/ethics_paper_final.pdf))

heart – and that professional education located in one dimension can learn from those fundamentally located in another.

In addition, evidence based research should be conducted to explore the effectiveness of current disciplinary approaches and the role of continuing education as a tool for encouraging compliance.

Issue raised in FEE's Discussion Paper

- 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?

**APESB Response**

In June 2007 the IFAC Professional Accountants in Business Committee released an International Good Practice Guide *Defining and Developing an Effective Code of Conduct for Organizations*. We believe that this Guide can be used as a starting point for the accounting profession to promote ethics-based culture in the organisation. This is best achieved via promotion of the values contained in the Good Practice Guide along with professional accountants leading by example in the way they provide their professional services to clients, employers and the wider community.

If you would like to discuss further or require any additional information, please do not hesitate to contact me or Mr. Channa Wijesinghe, Technical Director on +61-3-9642-4372 or email at [channa.wijesinghe@apesb.org.au](mailto:channa.wijesinghe@apesb.org.au).

Yours sincerely



Kate Spargo  
**Chairperson**