

FEE

Integrity in professional ethics – a discussion paper

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CIPFA is one of the leading professional accountancy bodies in the UK and the only one which specialises in the public services. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government. CIPFA's members work (often at the most senior level) in public service bodies, in the national audit agencies and major accountancy firms. They are respected throughout for their high technical and ethical standards, and professional integrity. CIPFA also provides a range of high quality advisory, information, and training and consultancy services to public service organisations. As such, CIPFA is the leading independent commentator on managing and accounting for public money.

CIPFA is pleased to have the opportunity to respond to FEE's discussion paper. Answers to the numbered questions appear below.

In general terms, we feel that the paper is an interesting discussion of the place of integrity within the general canon of professional behaviour. However, we feel that the purpose of the debate needs to be clarified. If it is aimed at people in the Institutes' conduct areas, and at functions in business such as compliance departments, then it adds to the understanding and development of ethical issues.

However, we have some concerns that a wider target audience would be disinclined to engage with such a debate. IFAC member bodies are about to put into place the 2009 revised IFAC Code, which as the FEE paper recognises, deals with integrity as one of the 5 key principles. It seems unlikely that suggesting a "parent and subsidiary" structure within the 5 principles would add to the understanding of accountants, particularly those working in business. In fact, the publication of different emphases amongst the 5 principles may give the impression that the profession's leaders are not fully aligned in this area, and we feel that this is a significant risk to run, with limited potential gains.

We feel that the most valuable communication with working accountants would be by means of practical suggestions for action, and ideally including case study material. We realise that this is mentioned in paragraph 1.2, but the instances – for example 6.7 and 6.8 – are limited both in number and in depth. We feel that this area of practical guidance would be the best opportunity for effective action in further study.

We also note that the examples are mainly drawn from issues in and around the statutory audit. This gives only a partial view of the issue of integrity in professional accountancy, and there seems to be only limited recognition of the accountant's role in financial reporting, or in management accounting. There is also little recognition of the significance of public sector accounting. There is much about public sector activity that could therefore usefully inform this issue. For example, the role of the Chief Finance Officer in the UK is clearly defined in law as going beyond a contractual employer-employee relationship. Statutory officers of local authorities, for example, have a protection in law which allows them to exercise their professional responsibilities in with regard to a wider group of stakeholders and the electorate.

Answers to the numbered questions:

- Q1 Integrity is about adhering to principles, because you actually believe in those principles. It is about having personal standards. It is however possible for an individual to uphold and practice personal standards that are different from everyone else's – that individual still has integrity. So for the purposes of a discussion of professional ethics, we have to add a requirement that your standards are the same as those generally accepted in your profession.

- Q2 Integrity could be seen as a necessary element of personal character that needs to exist in order for the other principles to work. The other 4 IFAC principles are perhaps the key examples of where integrity will be displayed. But as suggested above, it is not clear that this analysis would be of much benefit in practical terms to accountants in the workplace. Whilst FEE is correct in identifying integrity as being an overarching characteristic trait that lies above much of the rest of the IFAC code, integrity in itself can not be evaluated - the best proxy that can properly be evaluated is behaviour. The problem here is that it is difficult to establish a code of behaviours that are sufficiently general in principle to cover all circumstances, and to allow for the right amount of individual personal interpretation as to what is right. The nature of any such code would be to become more complex over time, and more complex as different environmental circumstances meet an increasing complexity and diversity in cultural and belief background.
- Q3 Threats to ethical behaviour are very fully discussed in the IFAC Code. The kinds of issue that FEE raises in its documents appear to have as their underpinning the different ethical situations experienced in a contractual relationship involving a professional accountant. The fact that the IFAC code comments up on professionalism twice in its five fundamental principles is clearly indicated that the appropriate relationship should be that of a professional.
- Q4: A tougher economic climate may make it harder for the accountant to resist pressures to act in inappropriate ways. The pressures are particularly likely to apply to an accountant in business, who usually relies for employment on one organisation.
- Q5 There is a treatment of this issue in the conduct section of CIPFA's website: <http://www.cipfa.org.uk/conduct/>
- Q6 Another way to look at this is to say that integrity is "what you ARE", while the other IFAC principles are "what you DO." So in this sense, the identification of integrity as the core principle is a viable analysis. However, it is important to avoid any wording that would diminish the relevance of the other principles.
- Q7 It is accepted that there is overlap amongst the 5 principles.
- Q8 To counter the question with another question, how is it possible to judge a person's character (other than someone with whom one is very close) except by his or her actions? Obviously, it is possible to distinguish in conceptual terms between a person's mindset, and his behaviour – but it is only behaviours that can be observed. On the whole it is not possible to assess accurately the validity of somebody's beliefs. Those beliefs can either be professed in hypocritical fashion, or genuinely believed, and if they are the latter then they are self authenticating and cannot be evaluated externally. However, beliefs are likely to generate a series of character traits, which can be more

clearly observed, though much more difficult to evaluate. Such characteristics may not only be influenced by belief but also by the prevailing culture into which those beliefs are set. The most apparent level which can be judged is behaviour. The difficulty is in judging whether actual behaviours are themselves the result of character traits which are in turn the results of belief.

Q9 It is certainly true that an individual's perceived integrity has a marked effect on public perception of the profession as a whole. It is difficult to say whether the reverse is true. Presumably there is a tendency for most individuals to follow what they think is generally accepted practice. Naturally, this must have implications for any disciplinary process, depending on the extent to which a particular practice is permitted or banned by laws, accounting standards, or other regulation.

Q10 As discussed above, there is a greater need for practical guidance for the busy accountant in the workplace.

Q11 As discussed in Q2, it is difficult to distinguish character from actions. The issue of applying disciplinary process must rely on actual instances of actions that infringe an established ethical code. The position of integrity in respect of the other 4 principles would not seem to be immediately relevant in a disciplinary case – infringement of the standards to be expected under any of the 5 principles could be grounds for a case. The wording in 5.1 seems to recognise that integrity, transparency and expertise are all inextricably linked elements of ethics.

Q12 The characteristics set out in 5.2 seem reasonable; we are also happy with the wording that appears in 4.1, 4.3 and 4.5. It may help to explore a little further the apparent contradiction between (e) consistency and (f) being open minded and willing to change.

We were a little puzzled by the comment in 5.3 that "facts and circumstances should be avoided ..." We assume that the intended message is that accountants should avoid getting into situations where there could be scope for misinterpretation?

And under 5.4, the definition is a little too much of the type "it's not this, and it's not that." Perhaps it would be better to say what it actually is – the topic could be described as "objectivity," and there is material on this in the IFAC Code.

Q13 In addition to the IFAC Code, CIPFA supports the Nolan Principles on Public Life. These are consistent with IFAC, but include further principles for consideration. While these have particular resonance for a public servant, and the wording is clearly with public service in mind, the concepts behind them should have some degree of general relevance. A brief discussion of these additional concepts follows:

Selflessness – the avoidance of doing things for personal gain – resonates closely with the notion of professional conduct, buttressed by the specific prohibition of insider dealing under confidentiality.

Openness - this may seem to sit uncomfortably alongside the exhortation to confidentiality, but in practice it is complementary.

Openness recognises that activities undertaken with public money ought to be visible to the public, so that temptation to doubtful or corrupt activity is made harder: so a breach of the confidentiality principle through abuse of a piece of inside information for personal gain would be easier to spot if the consequent transaction was open.

Commercial enterprise requires more confidentiality, but there may be a parallel around how to deal fairly with the information needs of various stakeholders.

Accountability is required in the overall conduct of business. It applies to public sector accountants as to other public sector employees. It might be argued that this principle is encompassed within professional competence and due care, but it is possible to say that this is not a special requirement that marks the accountancy professional out from public service people in general. The parallel is that all accountants in whatever sector have a responsibility to look out for their stakeholders

Leadership is about setting a good example, implicit for all professional accountants in the fundamental principles. But the burdens of example setting grow with seniority. So while all professionals must set a good example by their conduct, there is an extra obligation on those who are finance directors, chief executives or heads of functions. All professional accountants who manage staff should ensure that they lead by example, and provide proper training, including in ethics and other aspects of professional behaviour, for their teams.

Q14, 15, 16 We have little to add to the analysis here. Clearly, CIPFA supports the need for clear ethical values, and we believe that clearly expressed codes of conduct, that are actively supported and practised by top management, are key factors.

FEE may like to take note of IFAC's 2007 International Good Practice Guidance for Professional Accountants in Business, "Defining and Developing an Effective Code of Conduct for Organizations."

Q17 It is a key role for national institutes and the international federations to develop and communicate practical support material that accountants in the workplace can recognise as relevant to their circumstances. Case studies, templates and toolkits are likely to be most effective.



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