

## Comments Clifford Moggs on DP on Integrity on Professional Ethics

**6 October 2009**

I am immediately struck by the title, "Integrity in professional ethics". I remain a fan of Peter Drucker's (1908 – 2005) writings and in his 1973 book on Management – (Tasks – Responsibilities – Practices) he was intrigued even then as to why is there so much interest in 'ethics' for the business man? He considered that 'ethics' was for everyone. He wrote that the first responsibility of a professional was spelled out clearly 2500 years ago – primum non nocere – "Above all, not knowingly to do harm" by Hippocrates. (Popularly known as the 'physicians oath')

He of course raised other ethical questions, 'executive compensation', 'golden fetters' and 'a profit rhetoric' they all seem to have a current flavour.

I am interested in this topic and wonder why the accounting profession appears to, as far as I know, not have partners from the wider business community in evolving of ideas to 'put into practice'. I have 'floated' across Anne's desk, why do audit firms not change their audit practice from, the audit of financial statements, to the audit of the firms organisational integrity in producing the financial statements? Would the accounts be different? Or.....?

Then I am biased, the discussion ought to be centred on 'Corporate Integrity' driven by a 'worthwhile purpose'.

**7 October 2009**

Recently I was asked whether I had read Marvin Brown' book, "Corporate Integrity" (ISBN 978-0-521-60657-8) and if not you may find it very interesting.

Instead of doing the crossword this morning at breakfast my mind wandered.....

If I am not at work am I still not a citizen? If I buy something at a store will I not pay? If I was asked a question to which I knew the answer, would I not tell the truth? If I saw someone in the street that needed help, knowing that I could, would I ignore them? If the community needs me to re-cycle my waste do I not respond? If my neighbour complains about my infringement do I not respect their rights?

Arriving at work (first day) do I not arrive on time if not before? After induction to my employer's values, policies and procedures do I not respect and perform to these requirements? When my supervisor helps me in some difficult (to me) task do I not thank them? Do I not observe how my supervisor behaves and follow their acts? As I progress through the hierarchy, learning from the behaviour of the leaders do I not do the same? Do I now treat those following the same path as I have learnt with respect and patience that was shown to me?

As the employer encouraged me to further education by pursuing a professional qualification are my work habits and behaviour different? If presented with a request to ignore a corporate value, policy or procedure would I not be clear and suggest we discuss the matter at a higher level?

When I am work, as a citizen moving within the community respecting fellow persons on buses, shops, roads etc am I not happy to conform? Does my awareness of waste not carry over to work and ensure that I press the 'both sides' button on the photocopier? Do I not turn off the light when I leave the office? As I collect my bicycle to ride home do I not obey the road signals? As a citizen can I be isolated from responsibilities?

As a professional do I not exhibit to those watching me work the values that have been taught to me as I progressed through the ranks, what is my intent? Is it to be seen as doing the right things right because I enjoy my work? When I finally put out the office light for the last time, what impression have I left with those following my path, the one that has given me a great deal of satisfaction?

Some questions, a) Profit, is it made or is it a result? b) How would your organisation describe its 'worthwhile purpose'? c) What evidence would you seek in auditing an 'organisations integrity'?

I wonder whether 'c' should not be the real focus.

## 12 October 2009

The six chartered accounting bodies of the UK/ROI employ some 2400 employee's world wide.

This paper makes the following observations for member bodies:-

**ROLE OF FEE MEMBER BODIES** 8.1. Like other organisations, FEE member bodies instil standards of professional behaviour in their members through their leadership, strategy, policies, information and culture. 8.2. A fundamental principle of integrity, which generally refers to being straightforward and honest, is included in the IFAC Code and most member bodies' codes of ethics. However, while discussion on the principle of integrity clearly includes moral values, the other aspects, as well as the pre-eminence of integrity are not always as evident. **8.3. FEE member bodies might want to consider enhancing the discussion about the meaning and value of integrity by publicising this paper or other means.** 8.4. In addition, in the context of their current contribution to the promotion of integrity, FEE member bodies may also consider:• The support they can provide to members if they are disadvantaged as a result of standing up for integrity;• The ways in which ethics is taught as part of professional qualifications and on an ongoing basis;• Membership pre-entry procedures which assess the integrity of individuals, their moral reasoning and their personal qualities;• The requirements and scope of Continuing Professional Development; • Help lines and other means of providing ethical advice and support to members; and• The transparency of disciplinary processes.

To fulfil these objectives the employees of the bodies would have codes of conduct for adherence of the same objectives.

Rather than, as proposed by the FEE for CIMA to publish to its members, it could 'kill two birds with one stone' by in its place publishing its own code of conduct as issued to all of its employees.

I would like to submit comments to the FEE's invitation and would like this to be an example of the real world's current application on this topic. Perhaps you could be kind enough to let me have a copy of documents available to CIMA's employees.

## **16 October 2009**

The ICAEW published in 2007 its booklet "Reporting with integrity" this has now been followed, in June 2009 "Instilling Integrity in Organisations". Question 16 from the FEE paper is, "Who should be responsible for ensuring that ethical behaviour is embedded in organisations?"

If one refers to the FRC's own publication in October 2005 Internal Control – Revised Guidance for Directors on the Combined Code and reflects on paragraphs 19 – 21 it is a template for 'organisational integrity'. It "... encompasses the policies, processes, tasks, behaviours and other aspects of a company taken together: To facilitate its effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the company's objectives. This includes compliance with applicable laws and regulations. It reflects its control environment which encompasses its organisational structure, its control activities, its information and communications processes, and processes for monitoring the continuing effectiveness of its system. To be embedded in the operations of the company as part of its culture." Critical to fulfilling the responsibilities are the 'design specifications' from policies through to tasks with their pre-requisite of competence requirement which includes behaviours. A bad design specification has its own destiny, failure.

Table 12 of POB's report on Key facts and trends in the Accountancy Profession June 2009 repeats the errors of the previous year due to the POB's failure to report with integrity. CIMA endeavours to manipulate its own data by re-classification from a longer period to a shorter period is compounded, a) by your repeated acceptance and b) the failure to foot note that CIMA's registered students, regardless of whether they have passed final examinations or not, have no obligation to proceed to membership.

In that the POB has oversight responsibilities of the accounting bodies, the public are entitled to your integrity in publishing data when it is known to be grossly misleading. CIMA's re-classification is meaningless for Table 12. The exclusion that CIMA's students do not have to seek membership, its own rule, is more important but you fail to inform.

As an 'organisation' very much in the public's interest one must express concern that the attempts by some of the accounting bodies to uphold integrity is lacking in your work.

**21 October 2009**

For the professional worker competence is the hall mark of integrity. How would you be able to, “not knowingly do harm” without knowledge/education, skill, experience and behaviour? How would you falsify accounts – issue misleading information, manipulate data, exclude information due bias etc? Why would you allow the wrong intent to come into play?

Hippocrates showed even without infrastructures, the intent is crucial for the professional. What resources did Hippocrates have in the year 450BC? What behavioural trait led him to, “not knowingly do harm?”

For your interest and in response to the FEE’s invitation to comment on its Discussion Paper – Integrity in Professional Ethics I have attached some thoughts etc.

FEE – Discussion Paper – Integrity in Professional Ethics - “ view by Cliff Moggs” (October 2009)

### **Part One - The ‘off duty’ citizen?**

It is difficult to perceive, in the public interest, when I as a citizen can be ‘off duty’. That is the requirements, regulations and conventions of citizenship need not be respected or applied. Claims to be a ‘professional’ only have real relevance in the public interest. I can not only be trusted but I am also competent, the ability to work using my education, skills and behaviours to achieve the results of my promises to deliver. In employment professional competencies can be measured and tested before one is assigned for any engagement.

Citizens are the people of the organisation in an hierarchy of levels fulfilling its worthwhile purpose. The hierarchy does not re-define work, to do the right things right, to deliver the organisations output for its existence and survival. The smallest element of work is a ‘task’ and interestingly I can suggest a simple self assessment test for, is it right? CIMA’s motto is “honesty accuracy justice” (Probitas, Accuratio, Justitia) this is the test, is it? Honesty is truth, accuracy is correctness and justice is equitable, is it all three conditions?

Our citizens in the organisation remain the same people. Do they behave differently; are there really different requirements, regulations or indeed expectations from that of being in the ‘public interest’? The worthwhile purpose of the organisation with its hierarchy brings to the fore, unity and structure to achieve its purpose. Formal or not the management system interconnecting and managing the processes that together embrace its principles and polices set the requirements for effectiveness. The tasks and activities drive its efficiency.

Grounded on its principles encourages unity from leadership, involvement of people, factual information, mutual respect for its business partners, a system approach interconnecting the processes to deliver the output, continual improvement and satisfaction of customers needs. The search for and dependence on factual information

(honesty and accuracy) strengthens management understanding and learning to benefit all stakeholders.

From the foundation in which continual improvement on all fronts, having no boundary coupled with communication and consistency provides the energising link. Communication without format and being multi dimensional provides transparency and openness. Consistency brings confidence, reliability and trust. The promise is delivered. The spoken word and acts overtake the written procedures and Hippocrates's intent 2500 years ago is realised, "primum non nocere", to knowingly do no harm.

### **Part Two – An opinion.**

The completion of the required task can call upon all of the characteristics, knowledge, skill and practical experience of the individual. Whereas the individual practitioner accepts full responsibility and consequences for performance the organisation will have subjected the employee, first to selection and secondly to supervision in carrying out assigned tasks. The management system establishes its own design objectives from its principles and mission resulting in its policies. Work is completed within this framework for acceptance. Continual improvement protects the organisation against insolvency.

The individual citizenships responsibilities being united for its worthwhile purpose bring the same behaviour throughout the organisation. It will manifest an organisation with integrity to knowingly do no harm, a display of competence.

Perhaps in the public interest the professional accountant will strive to place a greater value to audit organisations integrity in producing financial statements rather than to audit a set of financial statements for compliance. A clear benefit is that while the organisations policies and procedure remain in place, effective, any financial statements derived from the same system will also remain correct.

### **Part Three – What you find published by the 'establishment'.**

I. The FRC/POB publish annually a report on the Key Facts and Trends in the Accountancy Profession ([www.frc.org.uk](http://www.frc.org.uk)) the following is Table 12. The POB is the UK's Accounting Regulator and it is worth noting four points, a) no comment is made by the POB on the 2 qualifying notes (6 & 7), b) CIMA brings into the data a change for examinations passed which understandably does not come into the equation by the others as it is irrelevant to the requirement (see note 6 below), c) *CIMA's students have no obligation to seek membership – a fact ignored by both the POB and CIMA* and d) the ICAI in note 7 offer information, not required for the data of the table highlighting their administering process which some would consider a weakness.

### **Profile of Students of the six Chartered Accountancy Bodies worldwide 2008**

**Table 12** sets out on a worldwide basis the length of time that individuals have been registered as students with the six Chartered Accountancy Bodies.

Time – years	ACCA	CIMA <sup>6</sup>	CIPFA	ICAEW
ICAI <sup>7</sup> ICAS TOTAL				
< 1 year	82,086	17,512	599	4,955
1,013 107,790				1,625
< 2 years but > 1 years	60,729	13,023	514	4,254
1,009 81,136				1,607
< 3 years but > 2 years	39,943	9,877	356	3,837
1,024 56,449				1,412
< 4 years but > 3 years	29,306	8,298	359	2,314
338 41,666				1,051
< 5 years but > 4 years	22,826	7,409	252	369
62 31,181				263
over 5 years	72,567	35,405	805	436
20 109,233				0
TOTAL	307,457	91,524	2,885	16,165
5,958 3,466 427,455				

- Indicators about the length of time between registering as a student and achieving the requirements for membership. Comparisons between the Bodies are not feasible as information is not kept on the same basis.

- Note, students at some of the Bodies do not undertake full time study and typically take longer to complete the requirements for membership. (And as included above CIMA students are not obligated to seek membership nor have any time bar).

Notes:-

**6. (CIMA) Individuals who are entitled to membership but have not yet been admitted (passed finalists) are included in the figures according to the length of time they have been a passed finalist.** (A strange interpretation of the requirement as it is time only)

7. The ICAI do not keep information on students who have completed their training contracts and have not applied for membership.

2. The ICAEW in its “Information Series – Reporting with integrity” (April 2007) refers to Enron’s code of conduct on page 35. Arthur Andersen Enron’s auditors are not mentioned even though they have been found complicit in Enron’s downfall and due their part ‘disintegrated’ worldwide. Integrity would suggest transparency and openness and not exclusion reflecting bias. The title of the publication is, “Reporting with integrity”.

3. The FRC/POB published in April 2005 a “Review of Training and Education in the Accountancy Profession”. Listed in who were consulted during the review were ACCA, CIMA, CIPFA, ICAEW, ICAI, ICAS, ICSA and the IFAC. Deloitte, Ernst & Young, KPMG and PWC also participated, 45 organisations in total. Paragraph 2.6 (Page 10) states, “From 2006, all non retired members will be required to maintain appropriate levels of competence for their work by carrying out ongoing professional education”. Chapter 6 page 32, paragraph 6.3 states “.....(we) are in the

process of implementing IES 7 (Standard on CPD) of the IFAC.....as verifiable CPD requirements are extended from 60000 accountants in public practice to over 200000 non-retired members working across the private and public sectors”. In paragraph 6.4 it states, “The professional bodies told us that they are implementing mandatory CPD systems.....etc”. What is excluded by the FRC/POB and apparently complicit with the 45 organisation is that IES 7 paragraph 4 states, “This standard introduces the concepts of continuing professional development as relevant, verifiable and measurable learning activities and outcomes”.

The standard IES 7 did not introduce “mandatory CPD”. Paragraph 5 (also not mentioned by the experts) explains, “This Standard draws on International Guideline 2, *Continuing Professional Education* (first issued February 1982: revised May 1998)”. It has been the IFAC’s recommendation, since 1982 to all member bodies that CPD should be mandatory, monitored and to provide for disciplinary action when necessary. An outcome of this ‘exercise’ was.....’let’s deal with ethical issues’?

4. CIMA’s Annual Review 2008 page 20 “A primary risk we face is that some members choose to resign or lapse due to negative feelings about being monitored” (for CPD). Why does CIMA’s Council & Executive consider this a risk?

#### **Part Four – The twelve questions**

1. What does integrity mean for you?

*It does not mean competence (ability to perform task from education/knowledge, skill and behaviour to complete with acceptable result). It conveys honesty, reliability and trust. Contemplate, a higher level manager instructs an individual to undertake a task, who responds I cannot do that because I am not competent for that task. What next?*

2. Is integrity the core principle in professional behaviour? If yes, why?

*Yes because integrity requires consistency in action and between what has been said and the acts that then follow (even at a later time)*

3. What are the threats to ethical behaviour?

*To be asked to do a task for which the individual is not properly trained and/or the correct resources to do the task are not provided. To be asked to do something that is contrary to the knowledge of the ‘demander’ and assumed correct by the ‘receiver’.*

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

*Performance expectations are unreasonable. Targets are set that fail to be realistic. Resources are compromised and perhaps less qualified people are asked to do work for which they are not properly trained.*

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

*I am retired from work, that is unpaid work. Note the observations in 'Part three' above –serious questions on the 'industry'. Unless it forms part of the design specification of an organisations policies and procedures it is difficult to perceive any commitment or consistency in the management for adherence.*

6. 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?

*"To create integrity, therefore is to integrate the parts into a whole". To behave with integrity at work brings a responsibility to be competent in all tasks of your position. Honesty on ones competence to accept an assignment of work – 'to knowingly not to do harm' – the right intent. Part three suggests that the 'establishment' are human but can exhibit the wrong 'intent'?*

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

*Same as 6 above, people in an organisation work, the left hand needs to know what the right hand is doing directed by knowledge skill and experience, it's a complete activity by a 'whole' person to deliver acceptable results for the right reasons and intent.*

8. 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?

*If the individual is a private practitioner then clients can take action as they wish. An employer consistent with its 'code of conduct' will follow its rules. One would assume that neither would want acts to be a negative reflection on either the individual or entity. George Washington on the 'Rules of Civility' said,"Associate yourself with men of good quality if you esteem your own reputation; for 'tis better to be alone than in bad company".*

9. 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?

*Clearly one cannot recommend that bad publicity is good for any profession. Equally a weak disciplinary process does not enhance anyone's reputation. Perhaps the issue could become clearer if the consequences were more widely known. SOX is a good example see sections 802, 805, 807, 903, 904, 1102, 1104 and 1106 are a few for serious offenders. Part three suggests that the establishment needs to 'up its game' and the 'peers' are too silent?*

10. 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?

*Evidence shows that there isn't 'integrity' in the (UK) accounting bodies, less than 10% of members vote on any resolution put to them by their member body. The*

*respective Councils pursue their own agendas without any real legitimacy claiming, 'it is accord our rules' ignoring that only a minority have voted. Unless the (UK) accounting bodies move to a minimum of > than 50% voting accompanied with transparent and open reporting on Council meetings 'integrity' remains an ideal without practical application. Mandatory CPD requirements on ethics/integrity with a universal programme for all professional accountants would be a demonstrable commitment. CIMA only has 7% of its members voting. Council meeting outcomes are not reported. CIMA claims it is transparent as it 'allows' 5 or 6 (Space restrictions) to attend Council meetings. It believes therefore, by this act, it is 'open' but 99.927% of members are not informed. The FEE wishes to point out that integrity implies 'fair dealing and truthfulness'. According to the IFAC such matters are for the member body to resolve, it is difficult not to laugh. It may well be that CIMA is the 'weakest link', so were 'the' 7 partners of Arthur Andersen. However, SOX is a clear outcome for the USA," based on the officer's knowledge, the report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading", Section 302 (a) (2). Section 802 includes this statement, "shall be fined under this title, imprisoned not more than 20 years, or both". Matters are taken very seriously in the USA. If 'integrity' is not consistent, what are the consequences?*

11. 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?

*Clarity and consequences can only be beneficial but is it derived from transparency and openness with involvement of the majority (i.e. in excess of say 60 – 70%). Maybe a start would be to establish a standard for membership of the FEE, how should member only accounting bodies be structured for member approval of critical professional decisions?*

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

*What appears to be ignored is the basic issue of ethics, "not knowingly to do harm", to maintain competence. Behaviour in the work place without competence is unacceptable. FEE includes, "Take corrective action", this suggests something has gone wrong which should be unacceptable. Also different from 'maintaining competence' is to 'improve'. Corrective action is to correct a fault not the cause.*

13. 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?

*Notwithstanding point in number 12 above there is the issue of the willingness to accept disagreement. 5.2.f refers to 'open to new ideas' but if they are 'disagreeable' are they automatically 'locked out'? Does it mean, 'Integrity as inclusion'? Also 'truthfulness to oneself' must recognise that if I respond to work assignment, "I can't do that because (I need to refresh my knowledge, I need more training etc) will the 'manager' be responsive?*

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

*Is there evidence of a management review? The objectives of the review would be for top management to review the management control system to ensure its continuing suitability, adequacy and effectiveness. The evidence would be that it had planned for the reviews, prepared input material in the form of performance results and accepted action to bring about improvement. Both SOX and Turnbull make this a requirement. The ultimate issue is, can it provide evidence of 'organisational integrity' in producing its financial statements? See separate letter solely on 'organisational integrity'. The Combined Code of Corporate Governance (FRC June 2006) paragraph C.2.1 states, "The board should, at least annually, conduct a review of the effectiveness of the group's system of internal control<sup>1</sup> and should report to shareholders that they have done so. (Presumably by making constructive comment.)*

15. 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.

*In that ethics is for all I don't see reason for exclusion. An organisation has a management system be it structured or unstructured. Written communication does have the benefit for referral and improvement. Small organisations should be encouraged not excluded. Behaviour is manifested by acts and a small company will act as ethically as a larger organisation.*

16. Who should be responsible for ensuring that ethical behaviour is embedded in organisations?

*The Chairmen and managers, irrespective of level, by their work. All managers/supervisors are the leaders. The FD, as an expert, can refer to Turnbull, SOX and COSO on the responsibility of designing an effective 'management control system' (internal control). Sec. 801 – 807 can be useful guide as to how the USA views transgression of its law. The 'senior finance officer' may well wish to use Sec. 406 of SOX to highlight the matter.*

17. 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?

*What I find strange about the SOX legislation of the USA is section 406 "Code of ethics for senior financial officers" without any reference to the remainder of an entities 'senior officers'. There can only be 'one management system' in an organisation and as I believe that **ethics is for all** it needs to be driven from the top. Individuals will act with integrity as citizens including the senior financial officer. It would always be a good idea to ask the top man, "What evidence can you show me that your organisation is grounded in ethics?" A formal management structure properly designed, recognising Turnbull's recommendation for Internal Control, specifying the requirements for meeting customers needs applying 'eight' principles can achieve the objective – see part one above. Also see page 7 FRC publication – Internal Control – Revised guidance for directors on the Combined Code – October*

2005. Clearly a professional accountant can through Turnbull, SOX sections 404 and 302 and/or COSO communicate what is required to produce the financial statements.

*A summary – For the professional worker competence is the hall mark of integrity. How would you be able to, “not knowingly do harm” without knowledge/education, skill, experience and behaviour? How would you falsify accounts – issue misleading information, manipulate data, exclude information due bias etc? Why would you allow the wrong intent to come into play?*

*Hippocrates showed even without infrastructures, the intent is crucial for the professional.*

*What resources did Hippocrates have in the year 450BC? What behavioural trait led him to, “not knowingly do harm?”*

Note: Resources influencing my views

1. Turnbull Committee on internal control – FRC Internal Control – Revised Guidance for directors on the Combined Code (Oct 2005)
2. Sarbanes-Oakley Act of 2002 (SOX) – USA Federal Law – Public Law 107-204 107<sup>th</sup> Congress
3. Corporate Integrity (Rethinking organisational ethics and leadership) – Marvin T. Brown ISBN 978-0-521-60657-8
4. ISO 9000 Quality Systems Handbook (Using the standards as a framework for business improvement) by David Hoyle ISBN 978-1-85617-684-2