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Dear Ms Blomme

### Integrity in Professional Ethics - a Discussion Paper

Grant Thornton International (Grant Thornton) welcomes the opportunity to comment on the Discussion Paper "Integrity in Professional Ethics". It is critical that professional accountants act and are seen to act with integrity. Indeed integrity is the cornerstone of our profession. We answer the questions posed in the discussion paper in turn.

#### General questions

Question 1. *What does integrity mean for you?*

Grant Thornton believes integrity is a mindset that individuals possess which embodies a sense of honesty and truthfulness in regard to the motivation of one's actions. People acting with integrity are guided by a set of core principles within which they behave to consistently high standards.

In an organisational context, we believe integrity can be viewed as a critical foundation of an organisation's framework of principles around which the organisation's professional and business activities are based, thereby supporting public confidence in their products and services.

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

Grant Thornton agrees that integrity is the core principle in professional behaviour because we view the principle of integrity as the benchmark in the decision making process which requires individuals and organisations to set high internal/external standards for their actions and decisions.

Question 3. *What are the threats to ethical behaviour ?*

Grant Thornton believes the following to be threats to ethical behaviour:

- Flaws in an individual's own moral compass. This is a threat that may be the most difficult to safeguard as it can be masked by falsehoods and other acts of deception

- A lack of integrity in key management and those charged with an organisation's governance
- Senior management's imposition of unrealistic expectations on financial performance of the organisation
- An organisation's lack of commitment to strong ethical practices and a tolerance for unethical behaviour
- Internal or external work environment pressures, such as excessive pressure from management to exceed earnings projections, financial hardship of an employee, and greed

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

We believe that these threats are always present within organizations, especially when the tone of the organization is one that lacks focus, lacks commitment to quality and is not transparent with its goals and objectives. However in today's economic downturn, we believe the pervasiveness of these threats will be more prevalent and accepted in the corporate culture of organizations, as distressed companies try to maintain their viability in the current global economy at all costs.

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

Grant Thornton requires all of its member firms to comply with its strategic initiatives which encourage global collaboration, leadership, a commitment to excellence, agility, respect for others and responsibility.

Grant Thornton's policies are written to promote and help ensure that member firms provide a high quality of service to their clients, and denote conduct that meets the highest ethical standards. Our policies and procedures are designed to apply across different cultures with the public interest as a primary objective. The policies are reviewed and enforced by national and international quality control procedures. They comply with IFAC's Code of Ethics and ISQC 1. However, as important as our policies are, our methods and culture are lived and demonstrated by the leaders of our organisation.

Integrity is a cornerstone to our policies and strategic initiatives. Our policies are designed to minimise the incidence and impact of failure to meet the highest ethical standards. However, policies, leadership and support in this area cannot give absolute assurance of ethical behaviour because policies are implemented by people with the attendant possibility for human failings and weaknesses.

Questions related to the professional code of ethics and the application thereof

Question 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?*

Grant Thornton agrees that integrity is the core principle that should be highlighted, as compared to the other fundamental principles of ethics that appear in the IFAC Code. As stated above, we believe integrity is a core component in professional behaviour because we view the principle of integrity as the benchmark in the decision making process which

requires individuals and organisations to set a high internal/external standard for their actions and decisions.

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

A professional regulator quoted the following in their Code of Ethics: “Integrity is measured in terms of what is right and just. In the absence of specific rules, standards, or guidance, or in the face of conflicting opinions, a member should test decisions and deeds by asking: “Am I doing what a person of integrity would do? Have I retained my integrity?” Integrity requires a member to observe both the form and the spirit of technical and ethical standards” .

Grant Thornton believes certain fundamental principles are derived from integrity, while others are complimentary to it. Specifically, we believe objectivity and confidentiality to be principles derived from integrity. When a professional accountant is making a determination if they are objective in relation to work for a client, they must assess whether there are any biases, conflicts of interest or other undue influences that might appear to compromise their professional or business decisions. We believe that integrity will be the driving force in the professional accountant’s final determination on whether their objectivity is impaired.

The fundamental principle of confidentiality requires professional accountants to respect the confidentiality of information acquired as a result of professional and business relationships and not disclose any such information to third parties without proper and specific authority, unless there is an overriding legal or professional right or duty to disclose. We believe the principle of integrity to be the benchmark in the decision making process which will require the professional accountant to set a high standard for their actions and decisions in order to avert using confidential information acquired as a result of professional or business relationships for their own self-interest or other financial motives, or for the personal advantage of third parties.

Grant Thornton feels that the principles of professional competence, due care, and professional behaviour, while predicated on integrity, are not derived from it. Instead these principles are driven by core competencies in the profession and specific requirements to adhere to guidelines in professional standards. Therefore, we believe the principles of competence, due care and professional behavior to be complementary to integrity.

Question 8. *From the perspective of professional ethical behaviour, does the quality of the person’s character matter if their actions are consistent with expected standards? Does this have consequences for the disciplinary process?*

Grant Thornton believes that the quality of a person’s character matters even if their actions are consistent with expected standards because individuals who possess a high moral character comprised of integrity, honesty and truthfulness, are more inclined to adhere to the spirit of ethical and technical standards and to do so in all situations. It is the aggregate of these attributes in an individual’s character that results in ethical behaviour.

However, we believe there cannot be disciplinary consequences for an individual's lack of character. Character drives behaviour, so the disciplinary process should judge the behaviour alone.

*Question 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?*

Grant Thornton believes that there is a correlation between the integrity of a profession and the integrity of individuals within that profession. It is our position that professions with good reputations and perceived as having integrity attract individuals with high integrity. Therefore it is in the accounting profession's best interests to maintain a high moral and professional standing.

Conversely, we do not believe that if the integrity of a profession should decline, it would necessarily negatively impact the integrity of individuals within the profession. Most individuals that possess integrity adhere to socially responsible behaviour and would be unwavering in an environment of opposition. However, if integrity waivers in those running or leading the system and lack of integrity is perceived as being tolerated in others then an overall decline could ensue as those with a weaker moral compass themselves begin to waiver. Therefore we believe that perceived integrity of the profession as a whole could have consequences for the disciplinary process.

*Question 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?*

Grant Thornton believes that it would be helpful and beneficial for codes of ethics to include a further discussion on integrity in order to provide the global community with a better understanding and consistent framework to apply the concept of integrity to their business practices. We believe that in order for the additional discussion of integrity to be effective, it should include examples of behaviour that would exemplify integrity.

However, integrity is an internal system of principles which guides behaviour and causes individuals to act according to their beliefs and values. While a further discussion within codes of ethics would facilitate easier implementation within global business practices to minimise the incidence and impact of ethical failures codes of ethics in themselves do not create a value system to define personal integrity. A personal value system is upheld by an individual and is a choice rather than an obligation.

*Question 11. Should there be greater clarity to which personal integrity would affect professional integrity, to enhance harmonization? What sort of personal behaviour should merit professional disciplinary action?*

Grant Thornton believes it would be advantageous to the profession to include a discussion on how personal integrity affects professional integrity. We believe it would be constructive to include examples of personal behaviours that would have an adverse impact on professional integrity together with examples of positive behaviours that professionals should aspire to and pursue in their careers.

We believe the following is a non-exhaustive list of personal behaviours that may merit professional disciplinary actions:

- Crimes involving fraud
- Money laundering
- Tax evasion
- Bribery
- Insider trading or other use of confidential client information for personal gain
- Embezzlement
- Forgery
- Other criminal offences
- Intentional disregard of generally accepted standards of personal behaviour resulting in loss or harm to the public
- Abuse of a position of influence for personal advantage

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

Grant Thornton agrees with the behavioural characteristics discussed in paragraph 5.2; however with respect to item e. - “show consistency”, we believe this is an area that needs further clarification, such as consistency in actions, values, and principles. We ask that FEE provides further guidance on its intent with respect to the concept of “consistency” as discussed in paragraph 5.2.

Question 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?*

We believe the following to be additional behavioural characteristics that are indicators of someone behaving with integrity:

- Accepts personal responsibility
- Respectful of views that differ from their own

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

Grant Thornton agrees with the indicators identified in paragraph 6.7; however we believe the following indicators should be added:

- Inspire greater ethical conduct in an organization
- Demonstrate the organisation's commitment to ethical behaviour
- Discourage unethical behaviour

Question 15. *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.*

Grant Thornton agrees that organisations should have clear ethical values and larger organisations may benefit from implementing a code of conduct. However, a code of conduct would not be suitable or necessary for all organisations. A code of conduct is likely to have limited impact where the organisation's leaders do not live and demonstrate the highest standards of ethical behaviour. Where the leader of a small organisation is clear about the standards of behaviour which are expected and leads by example then a code of conduct will have limited additional impact.

We believe instituting a code of conduct can be a strategic step in which leaders of an organisation build and foster an ethical corporate climate. Organisations attract individuals that share common values; therefore implementing a code of conduct could externalize the private values of its professionals, thereby promoting what the organisation stands for.

Question 16. *Who should be responsible for ensuring that ethical behaviour is embedded in organizations?*

We believe strategic leaders and those charged with governance of an organisation are responsible for ensuring that ethical behaviour is embedded in an organisation such as:

- The board of directors, including any non-executives
- Senior executives – CEO, CFO, COO, President

Question 17. *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?*

Grant Thornton believes it is not only reasonable but expected that all professional accountants promote an ethics-based culture in their organisation because, as stated above, organisations attract professionals with similar values and interests. Promoting an ethics-based culture will align the professional's internal values with the external values established by the organization.

We agree that additional guidance on integrity will be necessary in order to provide the global community with a better understanding and consistent framework to apply the concept of integrity to their business practices.

Some key points for consideration are:

- Examples of ethical practices that professionals and organisations should aspire to
- Increased awareness on how to implement and apply ethical codes
- Training on how to deal with ethical dilemmas

If you have any questions on this letter, please contact April Mackenzie (phone: +1 212 542 9789; email: [April.Mackenzie@gt.com](mailto:April.Mackenzie@gt.com)); or Nick Jeffrey (phone: +44 207 728 2787; email: [Nick.Jeffrey@gtuk.com](mailto:Nick.Jeffrey@gtuk.com)).

Yours faithfully



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