



Mrs Hilde Blomme
Director of Practice Regulation
Fédération des Experts Comptables Européens (FEE)
Avenue d'Auderghem 22-28
B-1040 Brussels

31 January 2010

Dear Sirs,

Subject: FEE Discussion Paper “Integrity in Professional Ethics”

I attach the comments of the Ethics & Institutions Committee of the Institute of Certified Public Accountants of Cyprus on the *FEE Discussion Paper “Integrity in Professional Ethics”* issued in September 2009.

We are at your disposal should you require any additional information or clarifications.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Lina Lemessiou', is positioned above the typed name.

Lina Lemessiou
Senior Officer

Attachment



From: Ethics & Institutions Committee Institute of Certified Public Accountants of Cyprus
Subject: FEE Discussion Paper “Integrity in Professional Ethics”, September 2009

<i>Replies to invitation to comment</i>	
Question 1	What does integrity mean for you? <u>Comments</u> We concur with the meaning of integrity as outlined in section 4 of the Discussion Paper.
Question 2	Is integrity the core principle in professional behaviour? If yes, why? <u>Comments</u> We share FEE’s belief as stated in section 2 of the Discussion Paper, that integrity is the core principal of the IFAC Code as without integrity no professional activity can be relied upon. In view of the fact that integrity as a concept has to do with perceived consistency of actions, values, methods, measures, principles, expectations and outcome, people use it as a holistic concept for judging the reliability of professional activity, or see it as the quality of having a sense of honesty and truthfulness in regard to the motivations for one's actions. Whilst integrity is one of the five fundamental principles that professional accountants must adhere to, we believe that it is one of the most important virtues.
Question 3	What are the threats to ethical behaviour? <u>Comments</u> The three main threats to ethical behaviour are: (i) The corrupt and unethical behaviour of the general community and politicians. (ii) Personal financial difficulties which may lead people to pursue unethical means to satisfy their needs. (iii) An educational system that does not promote the correct ethical values to future generations.
Question 4	How do these threats change as the economic climate changes? <u>Comments</u> The threats would logically become more significant as the economic climate worsens, and less significant during periods of financial prosperity. Of course there will always be people who during periods of prosperity may loose focus on moral values.



Question 5	<p>How is integrity instilled in your audit firm or your organisation? Does it always work? How could it be improved?</p> <p><u>Comments</u></p> <p>Replies of a sample from within the members of the ICPAC Ethics & Institutions Committee are set out below. As a general comment we note that instilling integrity in any firm or organisation is an ongoing process and improvement can be achieved through having specific guidance in place, the continuous raising of awareness and the application of sanctions against individuals upon default.</p> <p><i>(a) Audit firm</i></p> <p>Integrity is instilled in our audit firm in a number of ways including the following:</p> <ul style="list-style-type: none">• Tone at the top – Top management (partners, directors and senior managers) instill integrity and are expected to instill integrity through the way they act and behave. They are expected to both act and “be seen” to act with integrity. A culture of no discounts to acting with integrity exists irrespective of particular circumstances.• Following specific rules and regulations.• Training / courses.• Code of conduct booklet.• Code of conduct responsible partner. <p><i>(b) Audit Office of the Republic of Cyprus (“CAO”)</i></p> <p>The behaviour of public servants is governed to a certain extent by the Public Service Law and it is subject to disciplinary procedures. Members of the CAO staff must comply with this Law. However, as the ethical requirements applicable for professional accountants extend beyond general rules for behaviour, the Public Service Law does not constitute a sufficient framework for ethical behaviour with integrity. Therefore, although no absolute rules or values are possible to be defined in this respect, the IFAC Code of Ethics for Professional Accountants could focus more on integrity and the relevant guidance on this fundamental principle could be expanded. Having the appropriate guidance would be an additional tool for instilling integrity within organisations.</p>
Question 6	<p>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?</p> <p><u>Comments</u></p> <p>Yes, we agree that integrity is actually the core principle and that it should be highlighted as such, compared with the other fundamental principles, since the lack of integrity would have an adverse effect on objectivity, professional competence and due care, confidentiality and professional behaviour. Please refer also to the comments given for Question 2.</p>



Question 7	<p>Do the other fundamental principles derive from integrity or are they complementary to it? Please explain your rationale?</p> <p><u>Comments</u></p> <p>As commented for Question 2, integrity is the concept for judging the reliability of professional activity or the quality for honest and truthful motivation for one's actions. It is therefore logical to say that one of the other fundamental principles, namely objectivity, derives from integrity. As far as professional competence and due care is concerned, in view of the fact that it calls for knowledge and expertise, this fundamental principle is considered to be complementary to integrity. Furthermore, confidentiality and professional behaviour are independent qualities which would enhance one's integrity and are also therefore complementary to it.</p>
Question 8	<p>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?</p> <p><u>Comments</u></p> <p>The quality of a person's character is directly related to their ethical behaviour and the consistency of their actions with expected standards. It would therefore be difficult to have a case where expected standards are always met by someone of unethical character. Although the principles of professional ethics (more related to one's professional actions and output) may differ from those of personal ethics (more related to one's character), the principles of personal ethics are the first checkpoint in any situation.</p> <p>The disciplinary process should target cases where actions are not consistent with expected standards, without being concerned about the reasoning behind the default, as ethical behaviour and the quality of a person's character may not be the only reasons for the inconsistency.</p>
Question 9	<p>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?</p> <p><u>Comments</u></p> <p>Yes, we believe that the perceived integrity of the profession as a whole impacts upon the integrity of individuals within it. This was experienced in recent years following the Enron and WorldCom scandals, which adversely affected the perceived integrity of the profession as a whole and individuals within it alike.</p> <p>Disciplinary action should be taken whenever expected standards are not met. The reasoning behind it, whether it is due to lack of integrity or otherwise, should be considered only for corrective action to be taken with regard to improving individuals' values.</p>



<p>Question 10</p>	<p>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?</p> <p><u>Comments</u></p> <p>Referring to the IFAC Code of Ethics, it would indeed be helpful to include further discussion on integrity. The key points that should be included could be along the lines of sections 5.2 to 5.6 of this discussion paper which are descriptive, clear and to the point. Inclusion of examples such as the one included in section 5.6 could also be very helpful for someone to appreciate the right course of action in specific situations. Obviously, examples cannot cover all potential situations but can help in the thinking process that should be followed and in the embodiment of a culture of acting with integrity.</p>
<p>Question 11</p>	<p>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?</p> <p><u>Comments</u></p> <p>Integrity is very much directly linked to a person's character and it would therefore be difficult to differentiate between personal and professional integrity. To the extent that this is emphasised in the codes of ethics of accountancy bodies, it should be adequate and there should be no need for more clarity or examples. It would then be up to a disciplinary committee to decide whether in specific circumstances a person's personal behaviour should merit professional disciplinary action, and this would be for cases where the lack of personal integrity would affect, or could be seen to affect, one's professional actions. It would also be up to each professional body to prescribe what is acceptable personal behaviour of its members, so as to accommodate differences in culture.</p>
<p>Question 12</p>	<p>Do you agree with the behavioural characteristics discussed in paragraph 5.2? If not, please explain what should be changed.</p> <p><u>Comments</u></p> <p>Yes – we agree with the behavioural characteristics discussed in paragraph 5.2..</p>
<p>Question 13</p>	<p>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?</p> <p><u>Comments</u></p> <p>Other than those listed in paragraph 5.2, a further behavioural characteristic that should be expected of someone behaving with integrity in a professional context would be impartiality.</p>



Question 14	Do readers agree with the indicators discussed in 6.7? Are there others, and if so what? <u>Comments</u> Yes, we agree with the indicators discussed in 6.7. However, as regards the “people” indicator, an organisation should not only support employees to uphold its ethical values, but it should also assist them to understand and promote ethical values (through training, mentoring, written guidance and regular communication on the subject).
Question 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. <u>Comments</u> Yes – we agree that organisations should have clear ethical values, and that in all but the smallest organisations this would require to have a code of conduct. Smaller organisations may not have the resources to prepare a written code of conduct, and in this case the “tone are the top” approach should be appropriate.
Question 16	Who should be responsible for ensuring that ethical behaviour is embedded in organisations? <u>Comments</u> Top management should be responsible for ensuring that ethical behaviour is embedded in organisations. Even if a specific partner or board member is assigned to be the ethics responsible person within an organisation, the responsibility still lies with the whole of the top management. Where feasible, an ethics committee could be set up, composed and headed by highly respected members from within the staff and management, to assist in the objective of the top management to embed ethical behaviour in organisations.



Question 17	<p>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?</p> <p><u>Comments</u></p> <p>It is indeed reasonable to expect professional accountants to promote an ethics-based culture in their organisations, in addition to expecting them to behave in an ethical manner and with integrity themselves. Behaving in such a manner would by itself promote an ethics based culture in their organizations. Obviously, their own behaviour would not be enough and additional actions would be necessary. In this respect, greater guidance could be used to assist the process, which could include material already included in this discussion paper, together with examples of best practices an organisation could adopt and use to promote an ethics based culture.</p>
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