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Dear Madam

FEE Discussion Paper – Integrity in Professional Ethics

We are pleased to respond to FEE's Discussion Paper on Integrity in Professional Ethics issued in September 2009.

We agree with FEE that integrity is a core value which, to work effectively and inspire the confidence of all stakeholders, needs to be embedded throughout the whole complex web of individuals and organisations responsible for the production of financial information. Therefore, everyone involved is responsible for promoting such integrity. We recognise, however, that although robust ethical codes for professional accountants are necessary, it is not sufficient to address this issue merely through such codes. It is the responsibility of every organisation to establish codes of professional conduct consistent with international professional norms, such as the IFAC Code of Ethics, and to reinforce those codes through creating the right "tone at the top", through appropriate messaging within the organisation and through regular learning and development activities designed to instil the organisation's values in each individual.

We respond to each of the general and specific questions raised by FEE below.

General questions

1. What does integrity mean for you?

Integrity is an abstract term which may have different precise meanings in different cultures, but it is clear that there are some basic concepts which should be accepted by most people, including being straightforward and honest in professional and business dealings. For KPMG, integrity means constantly striving to uphold the highest professional standards in our work, providing sound advice to our clients and rigorously maintaining our independence.

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

Integrity is the core principle in KPMG and in our statement of Core Values issued to all our staff, integrity is the core value which underlies all of the principles of the Global Code of Conduct of KPMG International. Integrity is at the heart of the values that create a sense of shared identity within KPMG.

3. What are the threats to ethical behaviour?

It is generally accepted that ethical behaviour in professional life can be subject to threats such as self-interest, self-review, advocacy, familiarity and intimidation. Although there are probably circumstances when integrity is subject to each of these threats, integrity would appear to be most vulnerable to the threat that self-interest will militate against acting openly and fairly. Given that integrity is at the heart of professional conduct, it is the one principle that needs to be most deeply embedded in every professional. It would seem that integrity cannot be taken for granted, and needs to be instilled in the individual by the example of others, through leadership of organisations and through appropriate values which are evident within the organisation and constantly reinforced in a palpable way.

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

It is self-evident that in times when organisations are focused on survival at all costs, the temptation to breach professional codes of conduct may be higher than when times are not so hard.

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

Integrity is instilled in many ways within KPMG. The tone at the top and the example given by the leadership of the firm are basic elements of this process, but integrity needs to be evident in every decision that the firm makes so that individuals can see the results of the principle in action. Induction training, disciplinary processes, a good code of conduct are among the elements that help to instil integrity. Most importantly each individual must lead by example at every level within the firm. Integrity cannot be measured in absolute terms and it can never be said that a person or an organisation has reached its goal. Instilling integrity should form a part of the infrastructure of any organisation, be a key principle in the code of conduct or statement of core values. Such statements should be reinforced through visible evidence, for example in internal stationery, IT screen savers, posters etc. .

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Specific questions

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?

See our response to question 2 above.

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

To a large degree, the other fundamental principles, eg objectivity and professional conduct do derive from integrity and are certainly complementary to it. It is possible for conflicts of interest to emerge which result in threats to one or more of the fundamental threats, and at times compliance with one principle may conflict with another. For example a professional conflict arising from serving more than one client with a competing or adverse interest may mean that the duty to act with professional competence to one party may conflict with a duty of confidence to another party. However, the solution to such a conflict cannot result in the principle of integrity being compromised.

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?

From a professional perspective what matters is how people behave and whether this is in accordance with the firm's stated values. Organisations have no real instruments fairly to assess the quality of the person's character.

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?

The perceived integrity of the profession as a whole is probably too far outside the experience of most individuals. However, the integrity of the employing organisation impacts the way the individual behaves and therefore having the right "tone at the top" of the organisation is essential. This in turn needs to underpin those professional norms of conduct set for the profession as a whole.

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?

As a core value integrity should be included as one of the foundations of a code of conduct and its main behavioural characteristics explained. It is probably rather difficult for ethical codes of accountancy bodies to develop the concept of integrity in any way that it is really fresh and imaginative, given that most people have a sense of what integrity is and would probably expect

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it to be a given within their required standard of professional behaviour. However, in training developed by accountancy bodies and most particularly within organisations, an attempt can be made to make the principle of integrity more alive for people by exploring how it can be compromised through threats in the working environment and then to explore with individuals how those threats can be managed.

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?

In its 2007 paper entitled *Reporting with Clarity*, the Institute of Chartered Accountants in England and Wales defined one element of integrity being to “show consistency”. However the paper recognised that consistency is a particularly challenging behavioural characteristic given the ability of people to compartmentalise different areas of their life. It is also difficult for organisations to extend the scope of their professional values and expectations into an individual’s personal life because this might necessarily extend into areas of personal morality, cultural norms etc where there might be no universal standard. Clearly, however, there are some absolutes of appropriate personal conduct, including complying with the law and it can never be that an individual’s personal behaviour is so outrageous as to bring the profession or the organisation into disrepute.

It is also difficult to address personal integrity other than in a general way because personal behaviour of the individuals working in an organisation will have a very different impact on the organisation depending on the individuals’ positions and profile within the organisation and within society in general. It is clear that the personal behaviour of a senior partner has a completely different impact on the organisation than that of an individual newly hired from university. The message that needs to be conveyed is “how does an individual’s personal behaviour affect the organisation’s reputation?”

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

The behavioural characteristics set out in paragraph 5.2 seem a useful contribution to the discussion, although not all are absolutes (eg “take corrective action”) and some are more essentially a part of integrity (eg “be straightforward, honest and truthful”) than others (eg “be open-minded” may be more closely linked to “objectivity” than “integrity”). Some of these concepts are more self-evident than others. For example, although the IFAC Code of Ethics states in the very first sentence: “A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest”, there is probably no generally accepted definition of the “public interest” for this purpose. The IFAC Code’s statement that “In acting in the public interest, a professional accountant shall observe and comply with this Code”, seems rather to duck the question.

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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 that paragraph 5.2 presents a good basis for discussion and note the parallels with the ICAEW's own paper. It also seems to us that this type of analysis is most useful as a basis for discussion, for example in training events within an organisation as to what integrity means for that organisation. We note that the ICAEW paper refers to "promoting community interests" rather than "taking into consideration the public interest" which may itself be a useful basis for discussion.

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

We believe that the indicators in 6.7 are very useful and may be utilised by any organisation. Whilst other indicators may also be valid in certain organisations because of their culture, particular business or other reasons, the indicators in 6.7 do seem likely to be universal. In particular, we consider that the recognition of ethical dilemmas and discussion of the means to manage them are particularly important within a complex organisation.

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.

A code of conduct is a useful and powerful tool to transmit clearly what an organisation understands by ethical values. The absence of such a code does not necessarily imply a lack of clarity as to its ethical values, but clearly makes communication more difficult as well as any attempt for individuals to unite around a statement of common values.

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

The leadership within an organisation should be responsible for setting ethical values and reinforcing them by setting the right "tone at the top".

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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?

It is fundamental to any professional organisation that it promotes an ethics-based culture and also reinforces every individual's responsibility to act in accordance with the organisation's values in his or her professional life. Discussion papers such as the FEE document are a useful contribution to the body of guidance available.

I hope these comments are helpful. If you would like to discuss any of the comments made in this response, please contact me on +44 (0)20 7311 8281.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Peter Hughes', with a stylized initial 'P' and 'H'.

Peter Hughes
Partner, KPMG LLP and Head of Ethics and Independence, KPMG Europe LLP

cc
Mike Ashley, UK Ethics Partner, KPMG LLP, London
César Ferrer, KPMG Auditores, S.L. Madrid