

Reaction on FEE Ethics Discussion Paper on Integrity in Professional Ethics - The State Audit Office of the Republic of Latvia, 091124

The State Audit Office of the Republic of Latvia (SAO) welcomes the opportunity to provide input into the work on the discussion paper “Integrity in Professional Ethics” being undertaken by the Federation of European Accountants (FEE). We appreciate your initiative on developing the Code of Ethics of the International Federation of Accountants (IFAC) and support the work you have done on the document on the integrity and its importance in the professional ethics. We consider that the document provides additional information and indications for professional accountants and organizations on how to evaluate the principle of the integrity. Therefore we would like to offer our feedback on the document as follows:

General questions

1. What does integrity mean for you?

Integrity plays an important role for the employees of the SAO. It is one of the five main ethical principles mentioned in the Code of Ethics of the SAO, which relates to the Code of Ethics of the IFAC, and contains integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The Code of Ethics of the SAO sets, that employees of the SAO shall observe basic principles determined by the Code of Ethics in their work, however, in situations not mentioned in the Code of Ethics, they shall act according to the common norms of behaviour and moral. Furthermore in our opinion all five principles are closely related with each other and have to be considered together. Hence the structure of our Code of Ethics equally describes every principle of ethical behaviour and do not point out any of them separately as the core one.

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

In our opinion the integrity is one of the main principles of professional behaviour, but the Code of Ethics of the SAO sets up, that to achieve professional aims it should be reviewed together with other ethical principles, such as objectivity, professional competence and due care, confidentiality and professional behaviour. Since the existence of integrity does not supersede the obedience with the other principles it cannot be applied independently.

3. What are the threats to ethical behaviour?

According to our consideration the most important threat to ethical behaviour is that individual's understanding of the ethical principles is based on his/her experience, education, source of information and other aspects, therefore one situation can be examined differently by various people. Despite of the role set in our Code of Ethics mentioned in Question 1 in situations not mentioned in this Code, employees shall act

according to the common norms of behaviour and moral, sometimes it is hard to evaluate whether the action was in compliance with the common norms of ethical behaviour.

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

Due to stress, pressure, different problems and other negative aspects, in the economic downturn these threats and the risk that people will not act in accordance with ethical principles increase. But we consider that it is more related to the external influence and not related to the personal characteristics of the individual.

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

How could it be improved?

The SAO has a Code of Ethics and an ethical behavior is considered as a must and self-evident issue in everyday tasks. Furthermore a leadership and the culture of the SAO have important impact on the employee's behaviour. We have clearly set strategy and policies and every employee is familiar with our mission, vision and value, which helps them to practice fair and honest professional behaviour.

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

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?

As mentioned before in answer to Question 2, we do not consider that integrity is the core principle. We believe that all properties of the auditor should have an equal or nearly equal weight. All the principles are closely related to each other and cannot be examined separately. For example, a person may be honest but if his professional knowledge is weak that he might not even notice the possible threats. On the other hand principles like professional behaviour, confidentiality, professional competence and objectivity will not supersede any dishonest behaviour.

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

We think that all the principles should be reviewed as a whole as mentioned in answers to Question 2 and 6.

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?

We agree that the quality of the person's character plays an important role of his professional behaviour. The Code of Ethics and the working regulation of the SAO include rules on employee's behaviour not only within the SAO, but also at the off-duty time. It is set up, that employees have to act in accordance to the Code of Ethics and their behaviour should enhance the trust of the society to the SAO.

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?

We consider that the perceived integrity of the profession does influence the integrity of the individuals. As mentioned earlier in answer to Question 5 the SAO has an image of one of the most integral entities in Latvia, therefore the people working here consider their duty to act according to image. On the other hand if any of the employees tries to violate the Code of Ethics we have a number of control mechanisms to avoid it and to prevent one individual's improper actions.

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?

We highly evaluate the work that FEE has done and although we consider that the principles of integrity have been clearly described in the Code of Ethics and further expansion is not needed, the information included in the document could be useful in particular to the supreme audit institutions and professional accountants associations.

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?

We consider that the issue of personal and professional integrity could be examined further. As mentioned earlier we consider that personal integrity is more important than professional after all corporations are made out of people with individual properties and behaviours. The SAO sets certain norms and values to its employees which have to be obeyed not only during the work time but also off-duty since our actions reflect the overall image of the office.

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

We think that the listed properties are proper and correct.

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?

No, the properties listed in paragraph 5.2 fully explain the integrity.

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

We consider that all five points are relevant and clearly explained. Nevertheless we consider that it could be supplemented with the clear principles and goals of the organization i.e. vision, mission and values.

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.

We consider that the state has certain set values and bigger organisations such as qualified auditor's association has developed a documentation which sets the basic principles and standards of ethical behaviour and the smaller organisations can use the same principles into their work and it is not necessary to develop new, specific to organization, principles or their Code of Ethics.

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

As mentioned earlier we consider that the responsibility and obligation to control the ethical behaviour is mainly the responsibility of the supervisor. If there is not a benchmark to which to measure each individual's actions, then the ethical behaviour will deteriorate. Nevertheless the employees are the ones who demonstrate that the codes of ethics are taken into account and every one of them has to be responsible for their actions.

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?

We fully agree that not only the individual but also the environment sets the behaviour of a person and it is vitally important for us as auditors since we point at imperfections and wrong doing of the other people which means that our actions should be honest and clear-set. As you mentioned in your example not everything can be valued in monetary terms and the code of ethics have to be obeyed - no matter what. Of course the professional accountants should promote an ethics based culture in organisation but it should not be set as a top property. As explained earlier ethics and professionalism goes hand in hand and we cannot press on one property while the other degrades.

Should you have any questions please do not hesitate to contact us at lrvk@lrvk.gov.lv.