

The five fundamental ethics principles: time for evaluation?

A discussion paper issued by the Institute of Chartered Accountants of Scotland (ICAS)

Comments from ACCA

March 2016

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Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our 178,000 members and 455,000 students in 181 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. We work through a network of 95 offices and centres and more than 7,110 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

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ACCA welcomes the opportunity to comment on the proposals issued by ICAS. The ACCA Global Forum for Ethics has considered the matters raised, and the views of its members are represented in the following.

OVERALL COMMENTS

ACCA agrees with ICAS that the suggested change to the description of the principle of *professional behaviour* in the IESBA Code of Ethics for Professional Accountants (the IESBA Code) provides an opportunity to review the appropriateness of the whole suite of fundamental principles. Therefore, the discussion paper is of great value in stimulating discussion. Nevertheless, we would not support any further changes to the suite of fundamental principles at this stage.

We support the ‘focus on personal responsibility, ethical leadership and public interest responsibilities’ and the ‘need for “ethical judgements”’ mentioned on page 5 of the discussion paper. However, we do not believe that these can be achieved through embedding requirements within the ethical principles. Instead, user-friendly guidance, including detailed case studies, would better achieve the desired outcomes.

The suggested introduction of *moral courage* as an ethical principle would, we believe, risk reducing the impact of the current set of fundamental ethical principles. Combining behaviours (which are the current focus of the fundamental principles) with personal qualities, values, beliefs, etc would threaten the clarity of the current set of principles. Indeed, the discussion paper appears to recognise this by calling for accountants to ‘*exhibit* fortitude and determination’ (emphasis added). This could also be seen as a shift in emphasis towards publicly displaying certain qualities, rather than focusing on the usual situation, in which the principles are required to be applied in private.

The section of the discussion paper on public interest (on page 8) expresses well the responsibility of accountants to act in the public interest. We note that the paper does not attempt to define what the public interest is, and we believe that it is neither necessary nor desirable to do so.



SPECIFIC ISSUES

In this section of our response, we answer the 10 questions set out on page 9 of the discussion paper.

Question 1: Are the current five fundamental ethics principles still fit for purpose?

Essentially, we believe that the five fundamental principles are fit for purpose. As discussed below, we agree with the proposed amendment to the principle of *professional behaviour* arising out of the exposure draft on non-compliance with laws and regulations. However, we do not believe that there is a compelling argument to amend any of the other principles, or to add a further fundamental principle.

Question 2: Should there be a new principle of ‘Moral Courage’, or is moral courage inherent within the other principles?

We do not believe that there should be an additional principle of *moral courage*. Instead, the need for moral courage applies across the five fundamental ethical principles, and this is recognised within the IESBA Code in the identification of threats to compliance with those principles.

Page 7 of the discussion paper refers to the “pressures, or ‘dangers’ that accountants face”. It is misleading to relate this to moral courage, as they would simply be regarded as ‘threats’ to compliance with the fundamental principles in the IESBA Code.

Compliance with the fundamental principles requires both skill and courage: skill to recognise any threats and available safeguards, and courage to act appropriately whenever adequate safeguards have not been applied. Moral courage may be an innate quality within the professional accountant, or developed over time, through a better understanding of the IESBA Code.

The requirement to act with moral courage is of a different nature to the requirement to safeguard the fundamental ethical principles. Every care should be taken to preserve the clarity provided by the fundamental principles as set out within the IESBA Code, as a good understanding of the Code enhances



standards of behaviour. However, there would be great value in developing support for professional accountants to help them act with moral courage in safeguarding the fundamental principles.

In summary, we consider moral courage to be one of the enablers for safeguarding the fundamental principles, and not a quality that a professional accountant may be *required* to demonstrate when faced with an ethical dilemma. This is perhaps clearer if we accept that morality is a subjective concept, and its strength (and nature) varies from person to person.

Question 3: If moral courage is considered to be inherent within the other principles should it nevertheless be highlighted within the description of one of the other principles, such as integrity?

No, we do not consider it appropriate to highlight, or even mention, moral courage within the fundamental ethical principles. To do so would risk reducing the impact of the fundamental principles. Higher levels of moral courage would be more likely to be achieved through other resources, such as detailed guidance and case studies, being developed and made available to professional accountants.

Question 4: Do commentators agree with the ICAS definition of ‘Moral Courage’ as per the suggested sixth principle?

As part of a framework for addressing ethical issues (rather than an ethical principle), the definition of ‘moral courage’ has merit. We concur that it includes fortitude and determination, and that those qualities should be exhibited by a professional accountant. At times, this will require inappropriate behaviours to be challenged.

However, we believe that the reference to the conflict between private benefit and the public interest adds nothing to the definition, but encroaches on the definition of *objectivity*, and so risks confusion. In addition, the requirement for professional scepticism might be seen as part of the requirement for *objectivity*.



Question 5: Do commentators agree with the suggested amendment to the principle of 'Objectivity', highlighting the need to ensure that professional and business judgements are ethical?

No, we believe that the suggested amendment adds nothing to the understanding of *objectivity*, but risks weakening the focus of professional accountants when considering their objectivity (and their perceived objectivity). The resolve to ensure professional and business judgements are ethical is achieved through exercising moral courage, and this is best achieved through detailed guidance, rather than amendment to the Code.

Question 6: Do commentators agree with the suggested amendment to the principle of 'Confidentiality', to include that a professional accountant could have an 'ethical right or duty to disclose' information that otherwise should be confidential?

We believe the addition is unnecessary and potentially confusing. The discussion paper does not explain how an *ethical* right or duty would not also be a *professional* right or duty.

Question 7: Should personal responsibility, ethical leadership and public interest be highlighted within the professional behaviour principle?

Taking personal responsibility and accepting leadership are elements of moral courage, and these could be clearly explained in guidance. Furthermore, the highest standards of professionalism are expected of *all* professionals who understand their duty to act in the public interest. Therefore, we believe that the proposed amendments to the principle of *professional behaviour* would be unlikely to achieve significant improvements in behaviour, although they might impede clarity of understanding, which would threaten standards of behaviour.

Question 8: Should the fundamental principle of professional behaviour refer to 'conduct' rather than 'action' in accordance with the proposal contained within the IESBA Exposure Draft 'Responding to Non-Compliance with Laws and Regulations' (May 2015)?

Yes, we fully support this proposed amendment, for the reasons noted in the discussion paper. The change serves to address any *inaction* as well as any *action* that might discredit the profession. The proposed change provides



greater clarity, and we are not aware of any issues the change might present. Nevertheless, our response to this question assumes that the change proposed by the IESBA will take effect, as any inconsistency between the ICAS Code and the IESBA Code risks confusion.

Question 9: Do the proposed amendments to the fundamental principles suggested by the ICAS Ethics Committee enhance the fundamental principles to better reflect the behaviour expected of a professional accountant in today's world?

For the reasons explained in detail above (and with the exception of the proposed amendment to the fundamental principle of professional behaviour to refer to 'conduct' rather than 'action'), we do not believe that the proposed amendments would enhance the fundamental principles.

Question 10: Should personal responsibility be highlighted within the principles?

We have explained above our reservations in this respect. While we would welcome any communications that help persuade professional accountants to accept personal responsibility for ethical behaviours, to simply weave into the fundamental principles references to personal responsibility would tend to make them unwieldy and less effective.

CONCLUSION

ACCA applauds the intentions behind the changes proposed in the discussion paper. However, any changes to the fundamental ethical principles should be made with care.

Even with five fundamental principles, it can be difficult to establish how the various principles interact. Professional bodies help their members to navigate the issues by encouraging them to consult, either informally or through more structured systems, for example with ACCA's Technical Advisory Service. In addition to our reservations expressed above, we are concerned that the proposals would be seen as assisting (and encouraging) professional accountants to act alone when facing ethical dilemmas, and may lead to a





tendency to disregard the possible safeguard of consulting with others. Professional accountants should not be encouraged to act alone if it would be more appropriate to refer to their peers.

We welcome the desired outcome of the discussion paper, namely improved standards of professional behaviour, but believe that this is best achieved through clear and consistent messaging alongside the ICAS and IESBA Codes.



Think Ahead

