

Gill Ball - ICAC Conference -Caribbean

Professionalism and Ethics in Accountancy

I am delighted to be with you to talk about how ACCA views the twin issues of Professionalism and Ethics

Not just twins - but Siamese twins, because they are interconnected and each relies on the other to give it life..

Most people here will probably be able to give a broadly similar definition of ethicsbut I suspect when it comes to defining professionalism there may be considerably more variation

For our part, ACCA believes that a professional is an individual who is highly technically skilled, is subject to ongoing regulation and who is governed by a defined set of principles and who - crucially -works in the public interest.

It is the last element that causes most debate in our definition - but if accountants are to be seen to live up to the professional tag, they must have the public interest uppermost when they tackle the ethical and corporate governance challenges they will face in the future. The ethical duty of a professional accountant goes beyond the financial, it also extends into areas such as Corporate social responsibility and in trying to ensure that those businesses or individuals which they advise are aware of their own ethical responsibilities.

This is critical because businesses and the professionals within them are subject to greater public scrutiny than they have ever experienced before.

Boardrooms are under greater pressure than ever to demonstrate that their strategy and performance are aligned to shareholder expectations and the broader public interest. And many studies have demonstrated that good governance and an active strategy in corporate and social responsibility can be good for business.

Finance leaders are increasingly at the vanguard of these developments. Organisations are now expected to report on far more than 'the financials' - and issues such as executive remuneration, pension funds, corporate and social responsibility and of course ethical policies all impose new responsibilities on finance professionals.

Businesses now rely far less on the traditional use of capital assets to maximise returns on investments. Today, it's human capital - the knowledge and skills that talented individuals can bring to organisations - that provides the source of competitive advantage.

And if we follow the logic of this, then leadership is important not just at the top but throughout an organisation. It is important for all its professionals. Chief financial officers, finance directors, partners and financial controllers have significant roles to play.

As focal points of financial leadership, they are today responsible for far more than financial reporting - they contribute to strategic direction and even represent their employers among investors and the media.

It is business leaders as individuals who - alongside the efforts of professional membership bodies and regulators - must drive the integration of ethical values

into board and senior management decision-making, and into organisational culture. In this way, companies can improve brand values with customers, strengthen relationships with banks, investors and suppliers, and add to their appeal as employers of choice.

And so we come to the central questions:

Is the pursuit of the 'ethical leader' consistent with the demands to succeed in the global marketplace? Or is it rather the case that leaders can afford to be ethical so long as it is consistent with business imperatives? Can ethical leadership drive high business performance? And how can this performance be measured?

What is the role of the professional in the pursuit of the ethical organisation?

Can ethics be 'operationalised'? Or is it an area of such relativity, defined by a series of personal codes and behaviours, that it is difficult for ethics to be more than a backdrop to organisational decision-making?

We believe that rather than being a backdrop, ethics is centre stage in the decision making process. Ethical decision making is now part and parcel of the requirements for professionals and ACCA trying to support its members in the tough choices that they have to make, in the lead that they have to take in setting a good example and in how they should use their Moral Compass to lead their teams and organisations through a challenging terrain.....And they may need a different ethical roadmap in future as well

This may arise because of the predicted emergence of what is known as the BRIC countries - Brazil, Russia , India and China over the next few years.

We believe that by 2020 the BRIC countries will have established themselves as significant economic powers - and this will shift significantly the balance of economic power eastwards.

This shift may also mean that many countries may challenge what is currently the dominant Western approach to business, ethics and accounting.

The new dominant economies will have their own views on what is an acceptable way to do business - and will point to Enron and WorldCom as examples of how not to behave ethically. So a whole new set of business standards may have to be introduced and policed.

We believe that whichever code takes precedence a good starting point is found in the values of integrity, transparency and expertise in the ACCA and IFAC Codes which should be followed by all those in the financial reporting supply chain.

Why is ethics important to ACCA?

I think I should set out ACCA's ethical credentials at this stage of my presentation.

ACCA has long focused on ethical issues and put an emphasis on ethics when it developed its new Professional qualification which will be examined for the first time in December this year.

Having been guided by thousands of stakeholders around the world we adopted a holistic approach, through our exams syllabus - which incorporates ethics into

individual topics - as well as our practical experience requirements and a new Professional Ethics module. We've aimed to enhance our members' ethics knowledge, develop their ethical sensitivity, improve their ethical judgment and help them maintain an ongoing commitment to ethical behaviour.

And this starts right from day one, when, as soon as students register, they're sent an interactive video addressing them on the importance of professionalism.

Once they embark on their training, they're introduced to ethics, governance and professionalism in the very first paper - Accountant in Business - which helps to contextualise the accounting function and the work of accountants within the wider business setting.

Professionalism and ethics are subsequently integrated in 11 of the 16 papers of the new syllabus, particularly in law, audit and assurance, taxation, financial management and financial reporting.

We don't stop there - we've also introduced a dedicated paper - Professional Accountant - which covers key areas of governance, internal control and compliance, risk, and ethics and professional values. This aims to ensure that trainees apply relevant knowledge and skills, and exercise professional judgement, when carrying out the role of an accountant.

The paper examines the roles and responsibilities of directors and officers, as well as the role of accounting and auditing as support and control functions. It explores internal review, control, and feedback, including compliance issues

related to decision-making and decision-support functions. The syllabus also covers personal and professional ethics, ethical frameworks and professional values as applied in the context of an accountant's duties.

Beyond the exam hall

We have also developed a Professional Ethics module, the purpose of which is to provide students with an interactive means of exploring and practising their own ethical attitudes.

Our students and affiliates are also required to demonstrate their ethical behaviour and sensitivity when completing their practical experience requirements, or PER. These include the ability to demonstrate the application of professional ethics, values, and judgment, contribute to the effective governance of their employer and raise awareness of non-financial risk.

The aim of the PER is to ensure that trainees are fully aware of the ethics, values, and standards that apply to the professional accountant, and to make these standards a consistent feature in all aspects of their work. This includes taking personal responsibility for actions, and regularly reflecting on experiences to inform future actions and decision making.

ACCA members are required to demonstrate an ongoing commitment to developing and maintaining their ethical behaviour. Our continuing professional development (CPD) scheme requires members to validate - on an annual basis - that they're behaving ethically.

In addition, we have developed a dedicated ethics microsite - a vast, comprehensive resource. The site challenges visitors to identify their own ethical style, while stressing a key point - in that there is rarely a right or wrong answer to ethical dilemmas, at the heart of which will generally lie a conflict of interest. But it is individuals who choose how to respond to these conflicts, and we provide members with a range of support mechanisms - such as online courses, case studies, articles and a range of library resources - aimed at equipping them to do this confidently and competently.

We have invested time effort and resources into helping our members and students develop an ethical approach because we see ethics as impacting directly on ACCA's reputation and influence around the world ... This is why we ensure that our ethical code complies with the IFAC Code of Ethics for Professional Accountants and will always comply with that code

Our members , if they wish to remain members, have to accept their responsibility to act in the public interest.

We believe a professional accountant's responsibility is not exclusively to satisfy the needs of individual clients or employers

The fundamental principles of 'being an accountant' -those of integrity, objectivity , professional competence and due care , confidentiality and professional behaviour are common to all - ethics is indivisible.

As people, professional accountants are already expected to act ethically - in line with the principles of 'correct' conduct in the society in which they live and work. The professional ethics which they accept, will add layers to those acceptable levels of behaviour.

But what is regarded as 'acceptable behaviour' already presents dilemmas -it's not always obvious where the 'right' course of action lies..

For example, Rushworth Kidder, President of Institute for Global Ethics , wrote:

'The really tough choices .. involve right versus right, they are

truth versus loyalty,

individual versus community,

short-term versus long term

and

justice versus mercy'

The day-to-day work of professional accountants as business 'interpreters' means they are regularly in the public eye

And there is an expectation - from bodies such as ACCA as well as from organisations which employ them that senior professional accountants will encourage an ethics-based culture in their organisations and among younger professionals.

Surveys of our members around the world have shown that they are worried about how they can build an overall corporate culture based on integrity, all the while dealing with intensifying pressures from increased competition and the need to help grow the business.

Interestingly, our research also shows that while many finance professionals struggle with the need to juggle codes of conduct with regulations along with the harsh realities of doing business, many said that despite the red tape involved in regulations such as Sarbanes Oxley - that they believed that the act had a positive global effect on business ethics, and that some even felt that there should be a more stringent ethical framework.

ACCA believes that if there were to be such a framework - rather than a detailed attempt to legislate and regulate ethical behaviour - any guidance should be principles-based, since that would be best suited to meet the needs of CFOs and their teams in a rapidly changing business environment.

The experiences of Enron and WorldCom in the US and of Parmalat in Italy, another heavily regulated business environment, show that legalistic, rules-based codes encourage creative, loophole-based avoidance.

We are concerned that regulation can quickly become over-regulation.

We believe that regulation needs to be proportionate to the risk and material consequences of misconduct. Part of the essence and value of professional accountants is their ability to exercise judgements based on ethical principles. To impose regulation which is disproportionate to risk, would result in professionals being constrained in their use of judgement and would therefore reduce their value to the society in which they work.

We should avoid using blunt regulation at the expense of professional judgement as this is unlikely to promote ethical behaviour. And regulation, however detailed and prescriptive it may be can never fully cover the infinite variety and instances of potential conflict upon which professionals may be called to give advice.

This is why we advocate that our profession, governments, regulators, and investors should focus on supporting professional bodies such as ACCA in ensuring that there is a high level of awareness and understanding on the principles that guide behaviour.

ACCA supports the idea of a principles-based ethical code, as it would provide a framework for 'doing the right thing', acting as a benchmark for professionals, and enabling them to influence the culture of an organisation.

The five fundamental principles which I have already mentioned and which must be observed by professional accountants, and which in turn could be used to influence the wider corporate culture are:

- Objectivity
- Integrity
- Professional competence and due care
- Confidentiality

And

- Professional behaviour

It will be tempting for many to develop a code of conduct for their own organisations, but it is important that these codes actually make a difference and can be seen to make a difference.

Elizabeth Alexander - former CPAA national president said:

‘Codes of conduct must be transformed into powers for good, not primarily toothless forms of chastisement. The codes must become active documents which aim to encourage the professional to accept that ‘not everything has a price’, that the professional’s actions should be founded on a strong premise.’

And In 1987, the Treadway Report - National Commission on Fraudulent Financial Reporting in the US - stressed the need for an organisation’s ethical tone, including financial reporting, to be established by top management:

‘The responsibility for reliable financial reporting resides first and foremost at the corporate level. Top management - starting with the chief executive officer - set the tone and establish the financial reporting environment.’

The 1992 Committee of Sponsoring Organisations of the Treadway Commission (COSO) report ‘Internal Controls - Integrated Framework’ emphasised that the control environment sets the tone of an organisation and includes the integrity, ethical values and competence of the entity’s people

Given we have been looking at how to influence for the good - we need to consider the issues which might encourage ‘unethical’ behaviour.

First and foremost, there is the pressure on employees to be ‘successful’ - and ‘success’ is almost always measured in monetary terms.

There may also be the promotion of a 'doing whatever it takes' culture to finish ahead of the competition in the market place.

Michael G Daigneault - in 'Ethics & Professionalism: Why Good People Do Bad Things' - noted the following ways in which people rationalise why they have allowed their ethics to be compromised.

These were:

- 'I have to cut corners to meet my goals'
- 'My superiors want results, not excuses'
- 'No one will ever know the difference'
- 'I am afraid to do what I know is right'

I mentioned Sarbanes- Oxley earlier - but has it actually helped in encouraging a positive culture change ?

Madhav Mehra, President of the World Council on Corporate Governance; - said 'The message of regulation such as SOX is clear; breach the rules and you go to jail. Such legislation is really negative enforcement rather than a positive incentive to change perspective and reinforce sound corporate governance practices'

So it brings us back to a code of ethics as being a possible solution .

Such a code should articulate the application of ethical values to business practices and provide the means to measure behaviour

But

Having a code is not in itself enough - Enron had a code of ethics, unopened copies of which can still be purchased on e-bay

Professionals must be active and highly visible in leading the way on ethics. And senior professionals have the added responsibility of setting the ethical mood music of their organisation or department. They have to set the ethical tone for their business.

This involves looking at how the organisation measures and rewards success.

We would strongly urge business leaders - and HR professionals to develop measures of 'success' which are non-monetary and to look at creating rewards structures which promote 'ethical' behaviour.

How many businesses here have a process for rewarding employees who may have lost their organisation money by failing to win or retain clients or contracts, but who have acted entirely correctly within the terms of the ethical framework?

Their refusal to act improperly or to compromise the ethical values of the organisation may have a short term cost - but could well have much greater long term reputational and financial gains, by having taken a decision that has steered the organisation clear of allegations of dishonesty or complicity in fraudulent behaviour, for example.

This is again where it is critical for top management and the board to champion an ethics-based culture, which provides a framework for 'doing the right thing'. They have to be seen living by the code, and applying it in all aspects of their professional life. It really needs to be a case of 'do as we do', not just 'do as we say' when it comes to ethics.

Ethics is much more than simply blind compliance; it is about an attitude of mind

And we need to show how successful organisations with a strong -and used - code of ethics are. What organisations must avoid is marketing spin - whereby they can claim to 'tick the governance box'?

Companies should consider the business case behind having an ethical approach to work, and maybe, just maybe, board and senior management should promote the idea that companies and employees do the right thing just because it is the right thing to do?

Is the public's increasing suspicion and mistrust reason enough for companies to do what is rightfully required?

Research carried out by the UK Institute of Business Ethics asked 'who would you generally trust to tell the truth?' the findings might be uncomfortable for some here, since business leaders scored 24% just ahead of politicians (20%) and journalists (16%)

Research by UK's Institute of Business Ethics shows that companies with a clear commitment to ethical conduct outperform those which do not. Findings show that those with an explicit commitment to doing business ethically produced profit / turnover ratios 18% higher than those which do not

The IBE noted ‘The general conclusion from this study is that there is strong evidence to indicate that larger UK companies with codes of ethics, outperform those companies who do not have a code.

Having a code of business ethics might, therefore, be said to be one hallmark of a well-managed company.’

To conclude

Confidence of stakeholders is key for financial systems and economies to operate effectively and efficiently . It is fundamental to building credibility in financial systems and to the development of sound economies

Threats of government intervention and repeated calls from stakeholders have put companies under pressure to solve the problem of corporate ethics themselves

Having a code of ethics is ‘one hallmark of a well managed company’ , but having a code is not in itself sufficient for ethics to be taken seriously

To achieve a cultural change, each organisation needs a ‘champion’- it is essential that that the CFO and the senior management team are fully committed to creating an ethics-based culture . Top management must act to make the code a ‘living and breathing’ document

Organisations must monitor, review, educate, keep up the awareness and report on performance

Sir Christopher Hogg, Chair, UK FRC - Presentation to IFAC Board in February 2006 - noted ‘Ethics is the soul of governance’

But as business leaders, are we prepared to 'walk the talk'?

THANK YOU