

# The Five Fundamental Ethics Principles: Time for Evaluation?

Discussion Paper



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## INTRODUCTION

The ICAS Code of Ethics is largely based on the International Ethics Standards Board for Accountants (IESBA) Code of Ethics.

The Code establishes the five fundamental principles of professional ethics for all professional accountants:

- Integrity
- Objectivity
- Professional Competence and Due Care
- Confidentiality
- Professional Behaviour

In May 2015, IESBA published its Exposure Draft, “Responding to Non-Compliance or Suspected Non-Compliance with Laws and Regulations” (NOCLAR) <sup>1</sup>, proposing two new sections to the Code of Ethics; to provide guidance to professional accountants should they encounter, or suspect, non-compliance with laws and regulations during the course of their work.

One of the proposals also contained within this Exposure Draft was a change to the description of the fundamental ethics principle of professional behaviour. Whilst the ICAS Ethics Committee is supportive of IESBA’s objective to improve the clarity of the Code of Ethics, and its move to refine the fundamental principle of professional behaviour, we are however of the view that changes should not be made to individual fundamental ethics principles in isolation. Instead, we believe that a comprehensive review of all of the principles should be carried out in order to ensure that they are clear, and that the suite of principles is complete.

As part of its remit to promote ethics and integrity in business and the profession, the ICAS Ethics Committee has carried out a review of all of the fundamental ethics principles to try to ensure that they clearly describe what is required of each individual professional accountant in terms of their ethical behaviour in today’s world.

Furthermore, the Ethics Committee believes that the proposed six ethics principles are not only relevant to today’s professional accountant but the principles should, in some shape or form, be adopted by local, and global, business leaders and the organisations over which they preside.

This paper describes the proposals resulting from those deliberations, and the Committee would welcome any comments in relation to these proposals from any organisation or individual which has an interest in the accountancy profession. Comments on the discussion paper should be sent to [ethics@icas.com](mailto:ethics@icas.com) by 11 March 2016.

## FUNDAMENTAL ETHICS PRINCIPLES

The current five fundamental ethics principles in the ICAS Code of Ethics are as follows:

### **Integrity**

To be straightforward and honest in all professional and business relationships.

### **Objectivity**

To not allow bias, conflict of interest or undue influence of others to override professional or business judgements.

### **Professional Competence and Due Care**

To maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.

### **Confidentiality**

To respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.

### **Professional Behaviour**

To comply with relevant laws and regulations and avoid any action that discredits the profession.

The ICAS Ethics Committee has considered whether these five fundamental principles are still fit for purpose, or whether they should be supplemented, or amended, to better reflect the changed world we live in and the behaviour expected of a modern professional accountant.

As a result of this review, the Committee proposes some amendments to the current principles, including the introduction of the new, separate principle of “moral courage”; a greater focus on personal responsibility, ethical leadership and public interest responsibilities within the individual principles; highlighting the need for “ethical judgements”; and also the adoption of IESBA’s recent proposal relating to the principle of professional behaviour, each of which is discussed in further detail below.

## PROPOSED REVISED FUNDAMENTAL ETHICS PRINCIPLES

The ICAS Ethics Committee proposes the following revised fundamental ethics principles, with changes from the current principles highlighted in bold:

### **Integrity**

To be straightforward and honest in all professional and business relationships.

### **Objectivity**

To not allow bias, conflict of interest or undue influence of others to override professional or business judgements, **and having the resolve to ensure those judgements are ethical.**

### **Professional competence and due care**

To maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques, and act diligently and in accordance with applicable professional standards.

### **Confidentiality**

To respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is **a legal, professional, or ethical** right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.

### **Professional behaviour**

To take personal responsibility for demonstrating, and leadership by adopting, the highest standards of professionalism, by complying with relevant laws and regulations and accepting the moral obligation to act in a professional manner in the public interest, avoiding any conduct that discredits the profession.

### **Moral Courage**

To exhibit fortitude and determination to exert professional scepticism, to challenge others who are behaving inappropriately, and to resist the exploitation of professional opportunity for private benefit rather than the public interest.

### **Moral Courage – The Sixth Fundamental Ethics Principle?**

The proposed additional principle of moral courage builds on the work by the late Dr David Molyneaux in his ICAS research report “What do you do now? Ethical issues encountered by Chartered Accountants”. In his report, Dr Molyneaux said that ‘courage’ is not usually a term associated with the accountancy profession. He noted: ‘Lord Moran in his study, the Anatomy of Courage, which drew on his extensive personal observations during both world wars of persons of every rank (from private to Prime Minister) defined fear as “the response of the instinct of self-preservation to danger.” “Courage” is the “will-power” to cope with that instinctive reaction.’<sup>2</sup>

For accountants, ‘ethical’ or ‘moral’ courage is required to counter the ‘fears’ that they face, such as reputational fears and livelihood fears. Being pressurised to meet

expectations, or to manipulate results; these are the kinds of pressures, or ‘dangers’, that accountants face in their daily lives. If individual accountants do not resist these pressures, they risk compromising the fundamental ethical principles of their profession, resulting in potential reputational damage not only for themselves but also for the entity for which they work, and for the profession as a whole.

It can be difficult to stand up against others and to take the ethical stance, and it requires an inner resolve to do so. Each individual professional accountant needs to have moral courage in order to be able to maintain the highest standards of ethical behaviour, not only to preserve their own personal reputation, but also to ensure their responsibilities to their profession and the public interest are upheld.

There has been some debate as to whether moral courage should be a new additional principle, or whether it is inherent within the current principles. However, the Ethics Committee believes that, in today’s world, ethical leadership needs both professional behaviour and moral courage. The fundamental ethics principles are the foundations of a professional accountant’s career – professional accountants need to lead and must champion these fundamental ethical values. The Ethics Committee therefore believes that moral courage should be highlighted as a sixth fundamental ethics principle: moral courage is the fortitude required to be able to uphold the other five.

### **Personal Responsibility and Ethical Leadership**

In recent years, unethical behaviour has often been at the root of the scandals involving both individuals and corporations – the scandals at Enron and Olympus to name but two – and there are numerous other examples where further detail could emerge over time.

The importance of individual responsibility cannot be understated. The significance of personal responsibility was made clear in the UK Parliamentary Commission on Banking Standards report into the financial crisis, “Changing Banking for Good”. One of the quotes from this June 2013 report was:

‘One of the most dismal features of the banking industry to emerge from our evidence was the striking limitation on the sense of personal responsibility and accountability of the leaders within the industry for the widespread failings and abuses over which they presided.’<sup>3</sup>

A clear principle is that leadership and good habits are about taking individual responsibility. Each and every professional accountant must take individual responsibility for the maintenance of the highest standards of ethical principles throughout their career.

Professional accountants need to behave ethically themselves but, in our view, they should also adopt a leadership role in influencing the behaviour of others. Ethical leadership is not just for those at the top of organisations; individuals at all levels within organisations should have the confidence to challenge if they feel that something is not “right”. The Ethics Committee would encourage all professional accountants to take a lead in influencing the culture of the organisations in which they work to ensure that the organisation interacts with all of its stakeholders in an ethical manner.

Therefore, the Ethics Committee believes that there is a need for personal responsibility and ethical leadership to be highlighted within the ethics principles, and a proposal has been made to amend the professional behaviour principle to reflect this.

## Public Interest

To act in the public interest is the over-arching fundamental requirement of the accountancy profession. Indeed, acting in the public interest is a defining mark of all professions – it is what distinguishes professions from other occupations. Society puts its trust in professions “to do the right thing” on their behalf. Professional accountants have a duty to act in a professional manner, with self-interest being secondary to the interests of those who rely upon their work.

The Ethics Committee proposes highlighting the professional accountant’s obligation towards the public interest in both the “Professional Behaviour” and “Moral Courage” principles.

## Ethical Judgements

The Ethics Committee believes that, in both the “Objectivity” and “Confidentiality” principles, it would be helpful to highlight that judgements do not necessarily have only legal and professional aspects. There may also be, for example, social responsibility factors to take into consideration in the decision-making process. It is important to ensure that all ethical aspects are taken into account when making professional or business judgements.

## IESBA Exposure Draft: “Responding to Non-Compliance or Suspected Non-Compliance with Laws and Regulations (NOCLAR)”

IESBA noted the following was one of the objectives it intended to achieve with its proposed new sections of the Code <sup>4</sup>:

“First, the Board believes it is to ensure that professional accountants do not turn a blind eye to identified or suspected NOCLAR and that they do not, through their actions or inaction, bring the profession into disrepute. Phrased in terms of the fundamental principles, the Board believes this objective should be to enable professional accountants to comply with the fundamental principles of integrity and professional behaviour:

- **Integrity** – to be straightforward and honest in all professional and business relationships.
- **Professional behaviour** – to comply with relevant laws and regulations and avoid any conduct that discredits the profession.” <sup>5</sup>

In line with this objective, the Board thereby proposed a wording change to the fundamental principle of professional behaviour by substituting the word “action” with “conduct” such that the fundamental principle would read as follows: “To comply with relevant laws and regulations and avoid any action conduct that discredits the profession.”

The Ethics Committee is supportive of this proposed change on the basis that it captures ‘inaction’ as well as ‘action’ and has therefore incorporated this change into its proposed revisions.



The ICAS Ethics Committee would welcome views from any interested party on any matter covered in this paper. In particular, we would like responses to the following questions:

- 1 Are the current five fundamental ethics principles still fit for purpose?
- 2 Should there be a new principle of “Moral Courage”, or is moral courage inherent within the other principles?
- 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?
- 4 Do commentators agree with the ICAS definition of “Moral Courage” as per the suggested sixth principle?
- 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?
- 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?
- 7 Should personal responsibility, ethical leadership and public interest be highlighted within the professional behaviour principle?
- 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)?
- 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?
- 10 Should personal responsibility be highlighted within the principles?
- 11 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)?
- 12 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?

- 1 [ifac.org/system/files/publications/files/IESBA-Non-Compliance-with-Laws-Regulations-Exposure-Draft.pdf](http://ifac.org/system/files/publications/files/IESBA-Non-Compliance-with-Laws-Regulations-Exposure-Draft.pdf)  
(accessed 23 November 2015) International Ethics Standards Board for Accountants, Exposure Draft May 2015, Responding to Non-Compliance with Laws and Regulations
- 2 [com/technical-resources/ethical-issues-encountered-by-chartered-accountants](http://com/technical-resources/ethical-issues-encountered-by-chartered-accountants)  
(accessed 23 November 2015) What do you do now? Ethical issues encountered by Chartered Accountants, Dr David Molyneaux, Full Research Report, First published by ICAS in 2008, page 193, last paragraph
- 3 [parliament.uk/business/committees/committees-a-z/joint-select/professional-standards-in-the-banking-industry/news/changing-banking-for-good-report/](http://parliament.uk/business/committees/committees-a-z/joint-select/professional-standards-in-the-banking-industry/news/changing-banking-for-good-report/)  
(accessed 23 November 2015) House of Lords and House of Commons, Changing Banking for Good, Report of the Parliamentary Commission on Banking Standards, Volume 1: Summary , and Conclusions and Recommendations, 12 June 2013, page 16, paragraph 14
- 4 [ifac.org/system/files/publications/files/IESBA-Non-Compliance-with-Laws-Regulations-Exposure-Draft.pdf](http://ifac.org/system/files/publications/files/IESBA-Non-Compliance-with-Laws-Regulations-Exposure-Draft.pdf)  
(accessed 23 November 2015) International Ethics Standards Board for Accountants, Exposure Draft May 2015, Responding to Non-Compliance with Laws and Regulations, Explanatory Memorandum, page 7, paragraph 13
- 5 [ifac.org/system/files/publications/files/IESBA-Non-Compliance-with-Laws-Regulations-Exposure-Draft.pdf](http://ifac.org/system/files/publications/files/IESBA-Non-Compliance-with-Laws-Regulations-Exposure-Draft.pdf)  
(accessed 23 November 2015) International Ethics Standards Board for Accountants, Exposure Draft May 2015, Responding to Non-Compliance with Laws and Regulations, Consequential and Conforming Changes to Other Sections of the Code, page 56, Section 100.5



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