

Building and Sustaining a Strong Ethical Culture

1. An ethical culture reflects the shared values and beliefs of those within an accounting firm (“firm”) about expected ethical behavior that is aligned with the principles of the IESBA’s [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (“the Code”). These ethical values are firmly embedded into the firm’s organizational and governance structures and mechanisms which, in turn, support, activate and enable real and practical adherence to such values by partners and staff in their day-to-day judgments, decisions and actions.
2. A strong ethical culture also helps the firm enhance its reputation and reduce organizational risks arising from unethical behavior within the firm (e.g., reputational damage, loss of clients and regulatory sanctions). Ultimately, embedding ethical values into its culture and governance helps a firm fulfil its responsibility to act in the public interest and builds public trust.
3. The IESBA viewpoints on firm culture and governance (IESBA Viewpoints) underpin each of the following eight key FCG elements:
 - Ethical leadership
 - Oversight and governance
 - Provision of independent input
 - Accountability across the firm
 - Incentives and disincentives
 - Open discussion and challenge
 - Education and training
 - Transparency
4. These elements complement and reinforce each other. Taken together, they form an ethics framework that helps leadership in:
 - (a) Making ethics a central part of setting the firm’s strategic direction, core values and operations; and
 - (b) Fostering an ethical culture that prioritizes ethical values in decision-making at all levels and across all service lines of the firm.

These elements help to build and sustain a strong ethical culture. This holistic, comprehensive approach ensures ethics is consistently prioritized at both a strategic and operational level – guiding day in, day out the judgments, decisions and actions of every leader, partner and staff across all of the firm’s service lines.
5. Two of the eight FCG elements are key drivers to building and sustaining a strong ethical culture within a firm, ensuring the effective working of the other six elements in promoting ethical behavior:
 - ***Ethical leadership*** Strong ethical leadership by the firm’s senior leadership sets the tone for the whole firm by demonstrating through their judgments, decisions and actions that ethical behavior and acting in the public interest are of paramount importance. Senior leaders are

unwavering in their commitment to, and take the necessary steps to reinforce the importance of, the other FCG elements.

- **Oversight and Governance** An oversight and governance structure that is rooted in ethical values ensures the firm's ethical culture and performance are continuously monitored, evaluated and improved, holding leadership and others accountable for their behavior. Ethical values are safeguarded and reinforced by effective governance mechanisms put in place and continuously monitored by senior leadership. These mechanisms facilitate independent input when necessary, promote internal transparency, enable proper oversight, and provide the right incentives and disincentives to facilitate the effective implementation of ethical standards and policies and compliance with them across the whole firm.
6. The other six FCG elements, along with the two interconnected elements above, work in a cohesive and mutually reinforcing way, holistically contributing to the development of a strong ethical culture within the firm:
- **Provision of Independent Input** Input on certain strategic matters provided in an objective way by individuals who are not involved in the day-to-day operations of the firm and free from conflicts of interest with the matter at hand can be important for the firm's leadership in aligning strategic decisions with the firm's ethical values and the public interest.
 - **Accountability Across the Firm** Having well-defined accountability and promoting personal responsibility of all partners and staff within the firm reinforce individual ethical conduct, and how such individual conduct contributes to the ethical standing of the firm.
 - **Incentives and Disincentives** Effective incentives and disincentives reflect ethical behavior as one of the main factors influencing career progression within the firm, and provide for clear consequences for unethical behavior for all partners and staff. Consistent and transparent application of such mechanisms motivate ethical behavior and discourage or deter unethical conduct, contributing to the effective functioning of accountability across the firm.
 - **Open Discussion and Challenge** An environment where open discussion and challenge are welcomed encourages individuals to raise potential ethical issues in a psychologically safe way. Such an environment contributes to the early identification and resolution of ethical issues before they become more significant problems. An environment of open discussion also reinforces continuous learning and enables leaders to demonstrate ethical behavior in practice.
 - **Education and Training** Continuous ethics education and training programs designed to be practical and impactful help develop and strengthen the ethical mindset of partners and staff, enabling them to identify potential ethical questions and better navigate complex ethical dilemmas. Such programs support individual accountability by equipping individuals with the knowledge and confidence needed to make decisions that align with the firm's ethical values.
 - **Transparency** Communicating information about relevant ethics-related situations or matters, for instance, how the firm's leadership dealt with breaches of ethical standards, including consequences to the firm and those responsible, is a source of trust for individuals from both within and outside the firm.
7. Building and sustaining a strong ethical culture is a long-term commitment that extends to all levels and service lines of a firm, and it takes time, resources and commitment to achieve.

8. The application of the FCG elements may vary from firm to firm, depending on factors such as size, service offerings, markets in which firms operate, and the types of clients they serve. For sole practitioners, not all the FCG elements may be applicable (e.g., promoting a culture of open discussion and challenge). However, other elements such as strong ethical leadership and personal accountability remain important.