

Note to IESBA:

Agenda Item 1-B corresponds to the draft “overarching piece” and explains the importance of ethical culture and the connectivity between the eight FCG elements.

The Project Team proposes the title to be “Building and Sustaining a Strong Ethical Culture” (instead of “Overarching Principle” or similar, since this paper does not include principles per se).

See **Agenda Item 1-A** for the draft “contextual piece” which explains the context and purpose of the draft IESBA FCG principles.

Building and Sustaining a Strong Ethical Culture

1. A strong 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 that, in turn, support, activate and ensure real and practical adherence to such values.
2. By embedding ethical values into the firm’s culture, the firm’s reputation, client confidence and public trust in the firm are enhanced, and the risks arising from unethical behavior are reduced. A strong ethical culture will help support a firm’s sustainable success as well as enhance its brand and public reputation.
3. The draft IESBA principles on firm culture and governance (FCG Principles) underpin each of the following eight 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. Taken together, these eight interconnected elements form a framework that integrates ethics into a firm’s leadership and its strategic direction, core values and operations. These elements complement and reinforce each other, building and sustaining a strong ethical environment. 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 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 accountable for their behavior. Ethical values are driven by robust governance mechanisms that embed independent feedback when necessary, generate transparent information, enable proper oversight and provide the right incentives and disincentives to ensure that ethical standards and policies are implemented and complied with across the whole firm.

6. The other six FCG elements, along with the two elements above, work in an interconnected 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 free from conflicts of interest with the matter at hand can be essential for the firm's leadership to ensure strategic decisions align with the firm's ethical values and the public interest.
- **Accountability Across the Firm** Well-defined accountability tools, promoting individual and shared responsibility of all partners and staff within the firm, reinforce the importance of individual ethical conduct and how such individual conduct contributes to the ethical standing of the firm. This notion of intertwined individual and shared ethical responsibility ensures that all individuals are held to their ethical responsibilities.
- **Incentives and Disincentives** Effective incentives and disincentives reflect ethics as one of the main factors influencing career progression within the firm and provide for clear consequences for unethical behavior, regardless of the individual's seniority. 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 without fear of retribution. Such an environment contributes to the resolution of ethical issues before they become more significant problems. Encouraging and valuing peer consultation and critical thinking reinforce the role of continuous learning through real-time on-the-job training, and leadership's role modelling.
- **Education and Training** Ongoing 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 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** Transparent information about relevant ethics-related data, for instance, how the firm leadership dealt with breaches of ethical standards, including penalties given to those responsible, is a source of trust for individuals from both within and outside the firm.
7. Building and sustaining an 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.