

BUILDING AN ETHICAL CULTURE IN PROFESSIONAL FIRMS: GOVERNANCE, LEADERSHIP, AND ACCOUNTABILITY



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OVERVIEW

This article argues that professional services firms, particularly in accounting, must treat ethical culture as a strategic imperative amid growing public scrutiny, technological disruption, and commercial pressures. Recurring scandals, including exam cheating, breaches of independence, and confidentiality failures, have eroded public trust and resulted in multimillion-dollar penalties.

In response, the International Ethics Standards Board for Accountants (IESBA) launched its Firm Culture and Governance (FCG) initiative in 2024, identifying eight foundational elements of effective ethical culture: ethical leadership; oversight and governance; independent input; firm-wide accountability; aligned incentives and rewards;

open discussion and challenge; continuous education and training; and transparency.

The article outlines practical measures to operationalise these eight elements, including empowered ethics roles, culture analytics as early-warning tools, anti-retaliation reporting channels, and experiential training covering emerging risks such as AI and data integrity. It also notes that, to varying degrees, firms have already adopted most of these practices.

The author concludes by advocating for a global FCG baseline to complement the IESBA Code and quality management standards. With IESBA's June 2026 Board meeting set to decide the path forward, the article emphasises that embedding integrity by design across all firm sizes and service lines is essential to sustaining the profession's public interest mandate.

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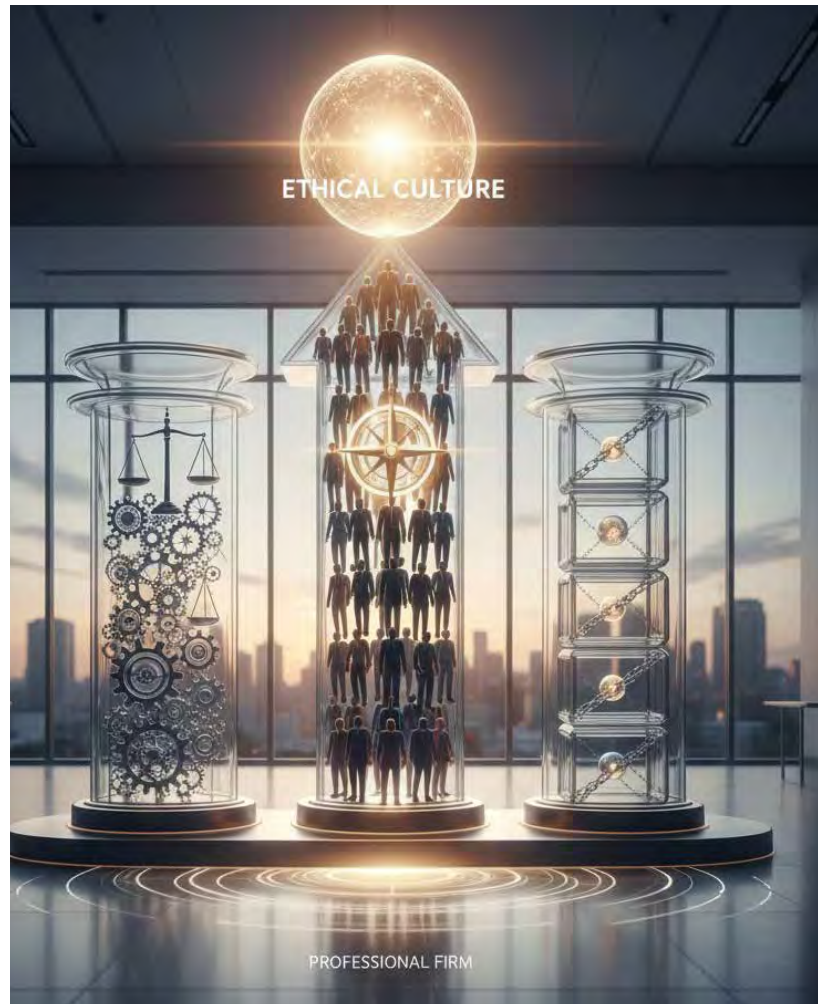
INTRODUCTION

In an era characterised by volatility, complexity, and increasing public scrutiny, the ethical compass of organisations, in particular professional services firms, has never been more crucial. In the accounting profession, trust, integrity, and ethical behaviour are the cornerstones upon which credibility and public confidence rest.

Yet in recent times, recurring scandals involving major accounting firms across multiple jurisdictions demonstrate that ethical lapses can erode a trusted reputation in an instant. Repeated ethical failures, including exam-cheating scandals, conflicts of interest, and breaches of confidentiality and independence, have eroded public confidence in accounting firms and resulted in multimillion-dollar penalties ranging from a few million dollars to one hundred million dollars.

These failures prompted the International Ethics Standards Board for Accountants (IESBA) to undertake a strategic initiative examining how firm culture and governance influence ethical behaviour.

The IESBA's Firm Culture and Governance Working Group Final Report (International Ethics Standard Board for Accountants, January 2025) represents a pivotal effort to address these issues. It identified eight foundational elements of a potential framework: ethical leadership; oversight and governance; independent input; accountability across the firm; incentives and disincentives; open discussion and challenge; education and training; and transparency. These fundamental elements underscore the vital relationship between firm culture, governance,



and ethical behaviour, highlighting that systemic ethical failures are often rooted not merely in individual wrongdoing but in organisational cultural weaknesses.

In addition, the IESBA commissioned an Academic Report on Organisational Culture and Behaviour (Tsahuridu, 2024), issued a summary of its findings from six global roundtables held in 2025 (International Ethics Standards Board for Accountants, July 2025). These developments were followed by the FCG Viewpoints in January 2026, which are designed to support global dialogue on key characteristics of elements such as ethical leadership, governance, or incentives

that influence ethical culture and behaviour in accounting firms, to inform the planned development of a global baseline (International Ethics Standards Board for Accountants, 2026). Together, these documents offer a blueprint for building ethical resilience in accounting firms.

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This article synthesises insights from all these sources and explores what effective ethical culture and governance look like in practice. It identifies good practices under each element of firm culture and governance and outlines how firms of all sizes can embed enduring ethical practices by design. The purpose is to demonstrate that many of these good practices are already adopted, to various degrees, by different firms, in different contexts. A global baseline will support wider adoption of these practices while highlighting that suitable culture and governance mechanisms are well within reach – as experience already shows.

THE STRATEGIC IMPERATIVE OF ETHICAL CULTURE AND ITS EIGHT ELEMENTS

Global stakeholders and roundtable participants who engaged with IESBA over the past two and a half years agree that a well-developed ethical culture is a strategic asset for a firm. Firms that integrate ethics into their brand and leadership narrative sustain long-term trust with clients, regulators, and employees. Some stakeholders also observed that when a focus on ethics is embedded into a firm's strategy, then service quality and long-term profitability will follow naturally.

Tsahuridu (2024) highlights that ethical culture constitutes the DNA of an organisation, shaping decisions more powerfully than any written policy. The IESBA's global stakeholder engagement process has identified that a successful ethical culture will link the eight foundational elements identified in the IESBA Working Group's Report into a single, reinforcing system.

I. Ethical Leadership: Setting the tone and building trust

Effective ethical culture begins with the firm's leadership. At its core, this demands what might be called 'tone at the top' and 'walk the talk' leadership. The consistent alignment of daily actions with proclaimed values, such that tone at the top cascades into 'mood in the middle' and, ultimately, into the everyday conduct of staff at every level of the firm.

Ethical leaders must also exercise moral courage, as invariably they will have to make difficult decisions under commercial and, at times, political pressure. The leaders should openly communicate the reasoning for their decisions. This transparency will reinforce psychological safety and deepen trust across the firm. Equally important is the leaders' capacity to mentor successors, extending their influence beyond

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positional authority and embedding it in the firm's culture over time.

Some firms communicate ethical practices during periodic town halls, peer learning sessions, and small-group dialogues facilitated by designated ethics champions,

with the explicit aim of normalising ethical conversations. Others have embedded proven ethical conduct into promotion criteria and recruitment strategies, signalling that integrity is not peripheral to career advancement but central to it. When leaders from the firm share

Continuous monitoring reinforces these structures. Regular culture assessments, 360-degree feedback mechanisms, and ethics pulse surveys allow firms to track whether values are lived in practice rather than merely stated. Balanced scorecards drawing on both quantitative indicators, such as incident reporting data and training completion rates,

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lessons drawn from real ethical dilemmas and failures, they reinforce that accountability and humility are genuine leadership strengths.

Tsahuridu's (2024) synthesis captures the dual nature of this leadership model: the most effective ethical leaders are simultaneously moral persons and moral managers, as they exemplify integrity in their own conduct while deliberately designing structures that reward it in others.

II. Oversight and Governance: Institutionalising Integrity

Ethics cannot rest on individual virtue alone. Structural oversight and governance mechanisms embed ethical expectations into the firm's management system, ensuring they persist independently of any single leader's tenure or disposition.

A growing number of firms have responded by appointing Chief Ethics Officers, Ethics Partners, or Ethics Committees with genuine authority to act and meaningful visibility at the executive level. Smaller practices, for whom such dedicated roles may be impractical, have integrated ethics oversight into existing governance by assigning ethics duties to a partner with client-facing duties or engaging external advisors as needed.



and qualitative signals, such as employee sentiment and client trust, feed cultural insights directly into the Firm's risk management and strategy reviews, supporting cultural improvements over time.

Technology is increasingly central to this oversight function. Global firms can use data

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analytics to identify ethical pressure points, such as patterns of unusually high partner/staff turnover, repeated high overtime, or clustering

of whistleblowing activity. These might be red flags indicating cultural stress in a firm before it becomes a visible crisis.

III. Independent Input: Strengthening Challenge and Perspective

Well-designed accountability mechanisms ensure that ethical responsibility does not rest solely with leadership but extends to every partner and member of staff.

Independent input enhances objectivity and accountability by introducing a public-interest perspective and a balanced approach to risk in decision-making and overcoming the silo mentality that can occur in a partnership environment. When external voices are embedded in governance processes, they challenge partners' groupthink, hold the firm's leadership accountable, and bring expertise and credibility to ethical oversight. Staff, too, are often more willing to raise concerns with parties who are perceived as genuinely impartial.

The ability to obtain independent or external input need not follow a single blueprint, as firms are exposed to different levels of risk, dependent on the services they provide to the public.

Larger firms may appoint Independent Non-Executives or establish public interest oversight committees. In contrast, smaller firms can obtain similar benefits through periodic external reviews, consultation with professional bodies, or an external advisor. Engagement can also be situational rather than permanent: seeking an independent perspective on a specific governance reform, a key partner appointment,

or partner remuneration policy, or a potential conflict of interest is often more practical than maintaining a standing committee.

Whatever model is adopted, the individuals providing independent or external perspectives must be impartial, demonstrably competent, and clearly outside the firm's chain of command and influence, with sufficient access to information to discharge their role meaningfully. Even modest arrangements of this kind, when well-designed, strengthen public trust and prevent the ethical blind spots that invariably develop within firms that predominantly operate via partnerships.

IV. Accountability Across the Firm: A Shared Responsibility

Well-designed accountability mechanisms ensure that ethical responsibility does not rest solely with leadership but extends to every partner and member of staff. This begins with clarity: every individual must understand what constitutes acceptable conduct, and the consequences of departing from it must be consistently and visibly enforced. Firms that codify expectations in conduct policies without following through on enforcement undermine the very culture they seek to build.

Accountability also requires closing feedback loops. Ethics-related information, whether gathered through surveys, appraisals, or incident logs, must be acted upon. When the

No cultural reform can succeed if reward systems contradict ethical principles.

leadership of the firm reviews the root causes of ethical lapses and integrates their findings into revised procedures, accountability becomes a mechanism for learning rather than for punishment. This orientation matters especially for junior staff, who are better supported through

structured ethical development than through punitive responses to ethical conduct that may reflect limited awareness rather than poor character.

Some firms have formalised this approach by

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developing internal ethical decision-making processes that enable staff to analyse situations systematically, document their reasoning, and consult peers or advisors before acting. Others incorporate metrics, such as staff turnover patterns, overtime data, and complaint trends, into regular management reviews, treating them as early-warning indicators of cultural stress.

It is also important to communicate the outcomes of resolved breaches internally in a tone that emphasises learning, demonstrates fairness, deters misconduct, and signals that accountability is a shared firm value among all partners and staff.

V. Incentives and Rewards that Align with Ethical Behaviour

No cultural reform can succeed if reward systems contradict ethical principles. The global stakeholder engagement process generated substantial evidence that aligning incentives and consequences with ethical conduct is among the most powerful levers available to a firm's leadership.

Generally, stakeholders believed that the most effective approach integrates non-financial metrics (including ethical conduct metrics) into performance evaluations alongside financial metrics, assessing not only what results are achieved but how they are achieved.

Contributions to ethical leadership, such as

mentoring colleagues through difficult judgment calls, modelling principled conduct under pressure, can be weighted as promotion criteria in some firms that have deliberately shifted performance evaluation away from short-term financial targets towards more holistic measures focused on service quality and trust. These mechanisms send a powerful message throughout the firm that ethical behaviour is not a constraint on career advancement but a condition of it.

Feedback from stakeholders indicated that non-financial forms of recognition, such as public acknowledgement through firm-wide communications, ethics awards, and personalised appreciation from senior partners, carry significant motivational weight, particularly where they celebrate moral courage rather than simply compliance. Sharing stories of partners and staff who helped colleagues navigate difficult ethical dilemmas elevates these individuals as role models and makes concrete what exemplary ethical conduct looks like in practice.

Constructive disincentives complete the system. Proportionate consequences for misconduct,





such as reduced bonuses, exclusion from high-profile assignments, restrictions on leadership roles, or the ultimate sanction of termination, will deter unethical behaviour. When disciplinary outcomes are communicated transparently and framed as opportunities for the individual, teams, and the firm to learn, they reinforce rather than undermine the firm's broader culture.

VI. A Culture of Open Discussion and Challenge

Open dialogue is the lifeblood of ethical behaviour within a firm, and it must be deliberately cultivated rather than assumed. Its foundation is psychological safety, in which employees feel genuinely trusted and believe that raising concerns will not damage their careers. That trust begins with the firm's leadership demonstrating humility and empathy in the face of challenging circumstances.

Formal mechanisms matter, but so does everyday accessibility. Informal interactions, such as senior leaders and partners walking

the floor, values-based conversations during team meetings, and ad hoc discussions of ethical dilemmas, often generate more authentic dialogue than structured webinars or annual compliance training. Regular ethical reflection sessions, in which teams discuss real cases and near misses, build the habit of collective ethical reasoning over time.

Whistleblowing systems must have multiple channels, be clearly communicated, and genuinely functional. Anonymous hotlines, independent external services, and internal

ethics committees each serve different reporting preferences, and the existence of multiple channels signals that the firm is serious about receiving concerns. Mandatory follow-up with whistleblowers to close the communication loop is essential, as without it, the reporting culture stagnates. Firms that analyse whistleblowing data systematically can detect systemic root causes long before individual incidents escalate into crises.

Addressing barriers to open discussion requires sustained attention. Defensive management cultures that silence junior voices must be actively challenged, anti-retaliation norms must be visibly enforced, and governance approaches must adapt to the cultural context. In more hierarchical societies, for example, appointed intermediaries who facilitate upward feedback can be more effective than direct reporting channels.

VII. Continuous Education and Training

Ethics education transforms awareness into practical action, but only when it goes beyond

knowledge transmission to engage partners and staff emotionally and practically. Both the academic research and the IESBA roundtable discussions supported the notion that abstract knowledge of ethical principles does not, by itself, shape behaviour: practical learning experiences do.

The most effective training approaches are experiential. Case-based workshops and interactive role-play exercises connect ethical principles to lived situations, strengthen empathy, and allow partners and staff to practise ethical reasoning under realistic pressure.

Continuity matters as much as intensity. Short modular content delivered regularly sustains ethical awareness between annual training events and accommodates the realities of hybrid workplaces. Embedding ethics across all service lines of the firm ensures that shared values are not siloed within professional practice groups. Firm-wide mentorship programmes that pair junior staff with experienced colleagues provide another avenue to have ethical conversations in live situations.

to future-proofing the firm's culture against emerging challenges. When firms treat ethics as a core professional competency, on par with technical proficiency, they reposition it as part of everyday decision-making rather than an annual compliance exercise.



Transparency functions both as a mirror and as a message, reflecting a firm's culture and signalling its intent.

In addition, for small and medium practices with limited internal resources, collaboration with professional bodies and universities to develop regionally tailored training toolkits offers a practical path to scalable implementation. Looking ahead, integrating modules on AI ethics, misinformation, and data integrity is essential

VIII. Transparency and Communication about Ethical Performance

Transparency functions both as a mirror and as a message, reflecting a firm's culture and signalling its intent. External disclosures, however, must move beyond compliance checklists. What builds trust is not the reporting of the incidents but a demonstration of how ethical dilemmas are handled, for example, the reasoning, the consequences, and the lessons drawn.

The global IESBA stakeholder engagement process revealed genuine concerns as firms are understandably concerned that publishing details of misconduct without adequate context risks misleading stakeholders or damaging trust rather

“The strength of the judiciary lies in public trust.”

— Justice D. Y. Chandrachud

than deepening it. The consensus that emerged favoured combining internal transparency with thoughtful external communication: sharing learning-focused summaries that show how breaches informed improvements, rather than publishing raw statistics that invite misinterpretation.

Internal ethics reports, such as disseminating the results of cultural assessments, lessons from investigations, and aggregate data on ethical queries, keep ethics visible within the firm and signal to partners and staff that it is genuinely monitored.

The principle of ‘what gets measured gets managed’ applies to ethics as much as it does to finance.

Firms that present ethical performance indicators alongside business metrics at management meetings embed ethics accountability into routine governance. Externally, firms can demonstrate ethical commitment through their websites or annual reporting mechanisms that describe the firm’s ethical practices in place. The key in all cases is tailoring communication to the audience, as clients, regulators, and employees have different needs.

CONCLUSION: A FRAMEWORK FOR AN ERA OF AI, PRIVATE EQUITY, AND HEIGHTENED PUBLIC SCRUTINY

The case for a global FCG framework rest not only on the recurring failures referred to at the outset of this article, significant as they are, but also on the opportunity to structurally improve the global toolkit for managing the disruptive challenges the profession now faces.

A FCG framework would complement the existing ethics provisions of the IESBA Code,

which rightly focus on individual behaviour, and can operate alongside ISQM 1, which focuses on quality management, as a recent joint IESBA/IAASB analysis has shown.

While some firms already extend ISQM 1’s leadership, governance, and monitoring components in the context of quality management across all service lines, this is far from universal. Most firms now generate the majority of their revenue from non-assurance services and employ a significant proportion of staff with non-accounting backgrounds, many of whom have not received the same ethics education and training as accountants. Many smaller practices providing only taxation, valuation, or forensic services fall outside the scope of ISQM 1.

The FCG framework would focus on ethical culture rather than on the quality management mechanisms that ensure reports are appropriate for their intended purpose; and, importantly, it would also set ethical culture and governance expectations across the full breadth of the profession.

The need for an FCG architecture is greater than ever. Rapid technological development demands robust firm-level governance to ensure that AI adoption, data integrity, and emerging digital risks are managed with the same ethical rigour. At the same time, new business models – particularly the growing presence of private equity ownership – introduce commercial imperatives that can be in direct tension with the public-interest duties at the heart of the profession. Without an FCG framework with genuine authority, these pressures will invariably find the gaps.

As Treviño and Brown (2004) observed, most people are products of the context they inhabit, looking up and around before deciding how to act.

The principle of ‘what gets measured gets managed’ applies to ethics as much as it does to finance. Effective firms track ethical

culture through a combination of quantitative and qualitative indicators. The value of these metrics lies not in their collection but in their analysis and use. Regular discussion of ethical performance data at the firm's leadership levels keeps ethics visible, enables early intervention, and demonstrates that the firm regards its ethical performance as a serious governance matter.

An ethical firm is defined not by the absence of wrongdoing but by the presence of integrity in design, leadership, and everyday behaviour. The synthesis of IESBA research, academic evidence, and global professional dialogue will feed into the outcome of the FCG project. Some stakeholders favour a principles-based approach, complemented by Non-Authoritative Materials (NAMs), over the introduction of lengthy new standards. In contrast, others advocate developing NAMs, recognising that ethical frameworks must adapt to the enormous diversity of firm structures across the global profession.

IESBA is scheduled to decide on the way forward for this project at its June 2026 Board meeting. This article demonstrates that, to varying degrees, firms already have practices that address most of the eight FCG elements, and what is needed is the development of a global baseline that firms can use to enhance, measure, and continuously improve their ethical culture.

Ethics, culture, and governance are not separate threads but inseparable strands in the fabric of the accounting profession. By integrating strong leadership with proportionate governance, balanced incentives, active education, open communication, and transparent accountability, the profession can rebuild and sustain public confidence. How effectively individual firms can align with a global FCG baseline will determine their credibility, public trust in the markets they operate in, their future success, and, ultimately, reaffirm the accounting profession's foundational social contract to act in the public interest.



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