



25 March 2011

By electronic submission via website: www.ifac.org

Senior Technical Manager
Regulation & Public Policy
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Dear Sir / Madam,

Re: A Public Interest Framework for the Accountancy Profession

Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to make a submission on IFAC Policy Position Paper #4 *A Public Interest Framework for the Accountancy Profession*.

Background to APESB

APESB was established in February 2006 as an initiative of the Institute of Chartered Accountants in Australia (ICAA) and CPA Australia. In November 2006, the National Institute of Accountants (NIA) was admitted to the APESB. APESB is an independent standard setter with the primary objective of developing and issuing, in the public interest, appropriate professional and ethical standards which apply to the membership of the three professional accounting bodies (over 180,000 professional accountants) in Australia. A secondary objective of the APESB is to provide the opportunity or forum for the discussion and consideration of issues relating to professional standards for accountants.

Overall Comment

We are supportive of IFAC's initiative in publishing an Exposure Draft on *A Public Interest Framework* (referred to as the 'proposed framework' in this submission) which aims to provide a definitional framework to assess whether the public interest is being served through the various actions of the accountancy profession. Given the importance and wide use of the term *public interest*, we believe that the proposed framework will become an invaluable tool for the accounting profession, regulators and policymakers when assessing various public policy initiatives. We believe that the proposed framework has a sound conceptual basis supported by public interest theories. However, we have a number of comments for your consideration which may assist in your final deliberations on the proposed framework.

The importance of Public Interest

A profession's obligation to serve the public is the most critical factor that sociologists use to distinguish professions from other occupations¹. Due to this predominant self-imposed obligation to serve the public interest the relevant profession (such as the accountancy profession) is accorded a high occupational status in society. Research has indicated that there are five distinct characteristics that set professions apart from other occupational groups (a systematic body of theory, professional authority, sanction of the community, regulatory code of ethics, and a professional culture²); the common theme embedded in these characteristics is the profession's overriding obligation to perform services in the public interest and not to serve its own interests³

Whilst regulators and policy makers use the notion of *public interest* in determining regulations and public policy, the absence of a specific definition and a framework to refer to, has resulted in different interpretations of this term by different stakeholders.

Accordingly, we commend IFAC on its initiative and efforts in publishing this Exposure Draft to contribute to the debate of determining what is meant by *public interest* and for developing this framework.

Specific Comments

1. The Definition of Public Interest

IFAC considers that the "public interest" is the common benefit that all citizens share from the services provided by the accountancy profession.

Who is the "Public" and What are its "Interests"?

We consider that the public interest is the sum of the benefits that **citizens** receive from the services provided by the accountancy profession, incorporating the effects of all regulatory measures designed to ensure the quality and provision of such services.

Who is the "Public?"

The "public" includes the widest possible scope of society: individuals and groups of all jurisdictions sharing an international marketplace for goods and services. All levels of society are affected, directly or indirectly, by the activities and responsibilities of the accountancy profession. This includes all consumers and suppliers in the global economy, regardless of the size of the enterprise or group. The "public" includes all users of financial information and decision-makers in the financial reporting supply chain: financial report preparers, corporate boards, stakeholders, auditors, governments, and finance industry participants (e.g., banking, insurance, legal, and investment services). It also includes electors and taxpayers, who as citizens of local, regional, and national jurisdictions, are

¹ Friedson E. The theory of professions: State of art. In: Dingwall R, Lewis P, editors. The Sociology of the professions: lawyers, doctors and others. London: Macmillan; 1993.p. 19-37.

² Greenwood E. Attributes of a profession. Social Work 1975;2(3):45-54.

³ Abercrombie N, Hill S, Turner BS. The penguin dictionary of sociology. 3rd ed. Ringwood: Penguin Books;1994.

affected by the fiscal decisions of their respective governments for public expenditures and the distribution of public resources.

What are its “Interests?”

In the broadest respect, “interests” are all things valued by society. These include rights and entitlements, including property rights, access to government, economic freedoms, and political power. Interests are things individuals (persons or entities) seek to acquire and control; they may also be ideals we aspire to, and protections from things that are harmful or disadvantageous to us. However, we extend our definition of “interests” to describe more specifically the responsibilities that professional accountants have to society. Examples of these responsibilities include:

- Providing sound financial and business reporting to stakeholders, investors, and all parties in the marketplace directly and indirectly impacted by that reporting;
- Facilitating the comparability of financial reporting and auditing across different jurisdictions;
- Reducing economic uncertainty in the marketplace and throughout the financial infrastructure (e.g. banking, insurance, investment firms, etc.);
- Requiring that accounting professionals apply high standards of ethical behaviour and professional judgment;
- Specifying appropriate educational requirements and qualifications for professional accountants;
- Encouraging governments and public sector organizations to provide their constituencies with sound fiscal information and decision-making; and
- Providing professional accountants in business with the knowledge, judgment, and the means to contribute to sound corporate governance and performance management for the organizations they serve.

1.1 The Public

We note that the public interest definition in APESB’s existing APES 110 *Code of Ethics for Professional Accountants* and the American Institute of Public Accountants (AICPA) *Code of Professional Conduct* refers to the community of people and institutions that the Members of the accounting profession serve and is a broader notion than citizens of a particular jurisdiction. The relevant definitions are detailed below:

*“AUST100.1.1 The public interest is defined as the **collective well-being of the community** of people and institutions that the Members serve. The accountancy profession’s public consists of Clients, credit providers, governments, employers, employees, investors, the business and financial community, and others who rely on the objectivity and integrity of Members to assist in maintaining the orderly functioning of commerce.”*

Source: APESB, APES 110 *Code of Ethics for Professional Accountants*⁴

⁴ Accounting Professional and Ethical Standards Board, APES 110 *Code of Ethics for Professional Accountants*, 2006.

“The public interest is defined as the **collective well-being of the community** of people and institutions the profession serves.”

Source: AICPA, *Code of Professional Conduct*⁵

This is an all encompassing approach which strives to take into account the society as a whole, and that public interest is served if it advances the collective welfare of the community.

Recommendation 1

The reference to *citizens* may create conflicts with legislative definitions of who is a *citizen* in a specified jurisdiction. We recommend that the reference to *citizen* be removed in favour of a general definition which refers to the *community of people and institutions* that Members serve.

1.2 The Public's Interest

We agree with IFAC on the proposed public's interest concept. According to Bruce Douglass, interest is present if a benefit can be connected to the individual or community it relates to.⁶ In the accounting profession, economic events, information and implications would be the likely interests of the public. The public's interest should be regularly reviewed or determined as an ongoing consultation with the public (inclusive of government and various stakeholder groups).⁷

An issue to consider is whether accountants are able to satisfy the interests of the other members of the society in addition to the stakeholders that accountants generally report to. The International Accounting Standards Board (IASB) notes that the objective of financial reporting is to provide information about the financial performance of the entity that is useful to enable a wide range of users to make economic decisions.⁸ However, research indicates that because accounting is focused on recording and presenting quantifiable economic events, certain groups in the society who have an interest in non-financial information are unlikely to have their interests served.⁹

⁵ AICPA, *Code of Professional Conduct*, American Institute of Certified Public Accountants, <http://www.aicpa.org/about/code/index.htm>, Viewed 1 March 2011

⁶ Bruce Douglass, *The common good and the public interest* Political Theory, 1980,8:1,103–17.

⁷ Dean Neu and Cameron Graham, *Editorial: Accounting research and the public interest*, Accounting, Auditing & Accountability Journal, 2005 Vol. 18:5, 585 – 591

⁸ International Accounting Standards Board, *Framework for the preparation and presentation of financial statements*, International Federation of Accountants, 2006.

⁹ JJ Young, *Making up users*, Accounting Organizations and Society 2006,31:6,579–600

2. The Three Criteria identified in IFAC's proposed Framework

The Public Interest Framework: Three Criteria

The accountancy profession must be mindful of the wider economic, political, and cultural implications of the public interest. IFAC considers that for the accountancy profession, serving the public interest should be evaluated against three criteria. This enables us to assess whether or not (and the degree to which) any policy, action, process or condition is in the public interest.

These criteria are:

1. Consideration of costs and benefits for society as a whole
2. Adherence to democratic principles and processes
3. Respect for cultural and ethical diversity

2.1 Consideration of costs and benefits for society as a whole

We agree with criterion 1 of the proposed framework. According to the normative theory of public interest by C.E.Cochran, the public interest is based on whether a policy or action will contribute more benefit than cost in comparison with its alternatives.¹⁰ This involves a cost benefit analysis with a view of maximising the greatest benefit for society. Criterion 1 involves a cost benefit consideration for society as a whole and is consistent with the normative theory of public interest.

However, in reality it is unlikely that everyone will benefit from a particular policy decision. The normative theory of public interest contends that benefits should outweigh costs for all or the greatest number of people. In the proposed framework, it is not clear if a particular policy or action is to benefit a certain portion, a majority or all in the "public" to satisfy this criterion. The phrase "...benefit for the society as a whole" in criterion 1 may need to be revised or further clarified to state what proportion of the public (i.e. all or majority) must receive the benefits of a certain policy for it to be considered in the public interest.

2.2 Adherence to democratic principles and processes

We agree with the proposition that adherence to democratic principles and processes should be a criterion for public interest. Each individual will have differing interpretations and ways of applying the concept of public interest. A recent academic research and survey conducted to evaluate members' (of a professional accounting body) understanding and application of public interest found that some members can iterate the formal definition of the public interest, but their application of public interest can be inconsistent with the definition.¹¹ In situations where conflicts of interest occur, members may be tempted to override public interest with personal interest. According to CE.Cochran, the process theory of public

¹⁰ CE.Cochran, *Political science and "the public interest"*, The Journal of Politics, 1974, 36:2,327–55.

¹¹ L. Davenport and S. Dellaportas, *Interpreting the Public Interest: A Survey of Professional Accountants*, Australian Accounting Review, 2009, 19, 11–23

interest states that the process of interest group conflict resolution serves the public interest so long as standards of due process are observed in its decision making process.¹² In order to achieve public interest, process theorists believe that there must be mechanisms in place to provide a process of accommodation and compromise.

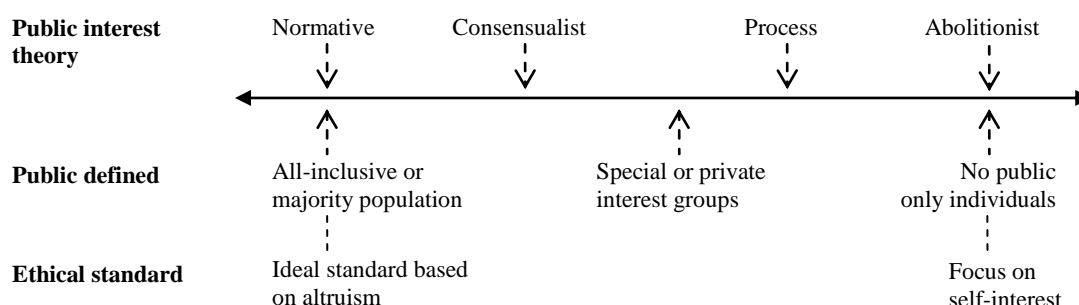
2.3 Respect for cultural and ethical diversity

We are supportive of the third criterion which calls for the consideration of cultural and ethical diversity. Given the diverse and multicultural environments that IFAC members and institutions operate in we believe that this criterion is appropriate.

We note that it incorporates certain elements of abolitionist and consensualist theories of public interest. The abolitionist theories of public interest do not recognise the public or community as a whole; rather that there are different groups that compete to advance their own self-interests.¹³ The consensualist theorists consider ethical standards as well as peoples interests in a broader context than immediate self-interests.¹⁴

Accordingly, we believe that it is important to consider the interests of different interest groups and consider different perspectives (such as cultural differences) in setting public policy.

Public interest theories: a continuum¹⁵



The normative view of public interest considers benefits that apply equally to all or the majority of the population. The consensualist view of public interest emphasises a notion of public which comprise a significant proportion of the public but not the entire population. The process theorists focus on the process and the public consist of diverse groups and the final result is the balance of interests resulting from a process of accommodation and compromise. Abolitionist theorists tend to focus on individual self-interests.

¹² CE.Cochran, *Political science and "the public interest"*, The Journal of Politics, 1974, 36:2,327–55.

¹³ CE.Cochran, *Political science and "the public interest"*, The Journal of Politics, 1974, 36:2,327–55.

¹⁴ S. Dellaportas & L. Davenport, *Reflections on the public interest in accounting*, Critical Perspectives on Accounting, 2008, 19:7, 1080-1098

¹⁵ S. Dellaportas & L. Davenport, *Reflections on the public interest in accounting*, Critical Perspectives on Accounting, 2008, 19:7, 1080-1098

The three criteria adopted by IFAC in developing the proposed framework incorporate the various elements of these public interest theories and accordingly we believe that the proposed framework is conceptually sound.

Other comments

The Exposure Draft does not address situations where the obligation to comply with professional standards or the Code of Ethics may conflict with a Member's public interest obligations. According to the notion of professionalism, only when professional and ethical standards of conduct are observed will public interest be served.¹⁶ In certain circumstances a conflict may be created whereby adherence to a particular professional standard may not be in the public interest. For example, based on the work of M. Witten, in circumstances where serving public interest entails disclosure of relevant information, confidentiality (which is a fundamental principle of the Code) may preclude the Member acting in the public interest.¹⁷ How can the Member serve the public interest if there is a clash with a fundamental principle such as confidentiality?

Recommendation 2

We recommend that the proposed framework consider the possibility of how to deal with circumstances where adherence to the Code or professional standards may create a conflict with the Member's overarching obligation to act in the public interest. Theories and practices dealing with dilemma management may be helpful here (Fons Trompenaars).

Conclusion

Subject to our recommendations noted above, we are supportive of IFAC's proposed framework. We hope our comments and suggestions are useful for you in your final deliberations of the proposed framework.

If you would like to discuss further or require any additional information, please do not hesitate to contact me on 61 418 836984 or email at kspargo@bigpond.net.au or Mr. Channa Wijesinghe, Technical Director on 613 96424372 or email at channa.wijesinghe@apesb.org.au.

Yours sincerely



Kate Spargo
Chairman

¹⁶ S. Dellaportas & L. Davenport, *Reflections on the public interest in accounting*, Critical Perspectives on Accounting, 2008, 19:7, 1080-1098

¹⁷ M. Witten, *Guardians on guard*, CA Magazine, 1990, 123:11, 26-30, cited in S. Dellaportas & L. Davenport, *Reflections on the public interest in accounting*, Critical Perspectives on Accounting, 2008, 19:7, 1080-1098