

International Ethics Standards Board for Accountants

IFAC Exposure Draft Public Interest

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Purpose of the public interest framework

- We understand this paper is intended to be a guide for:
 - IFAC, and
 - PIACs, including IESBA
- These bodies are required to serve the public interest
- The question this paper seeks to answer is: What does this mean?

What is the "public"?

- "The widest possible scope of society"
- including:
 - Financial preparers and auditors
 - Corporate boards
 - Stakeholders
 - Govts
 - Electors and taxpayers

What are their interests?

- "all things valued by society"
- including:
 - Sound financial reporting
 - Comparable reporting across jurisdictions
 - Reducing economic uncertainty
 - High standards of ethical behaviour and judgement

The draft discussion paper

- Proposes three criteria for assessing "public interest"
 1. Costs and benefits for society as a whole
 2. Democratic principles and processes
 3. Cultural and ethnic diversity

Criterion 1 – Consideration of costs and benefits for society as a whole

- Cost/benefit analysis
- Acknowledged that this is not easy
- Essentially, does the proposal do more harm than good for society as a whole?
- Keep analysis in proportion to the project

Criterion 2: adherence to democratic principles and processes

- Due process
- Independence from special interest groups
- Fair and balanced representation in decision-making
- Public consultation
- Public accountability – transparency and public oversight
- Broader environmental impacts

Criterion 3: respect for cultural and ethnic diversity

- Concept is based on "universal values"
- Consider things such as:
 - History
 - Legal systems including religious law
 - Commercial practices
 - Level of economic development
- Different countries may have competing views on these things, and on what "public interest" is

IFAC's application of the Public Interest Framework

- PIOB, PIACs, standards setting boards, CAGs, and SME initiatives all demonstrate IFAC is adopting a public interest approach
- IFAC's new Impact Analyses also shows this

Working group preliminary comments

- Very difficult to define "public interest" although many have tried
- Application of scope to IFAC and related bodies needs to be made much clearer
 - The paper should clearly limit the scope to the framework under which these bodies operate, and how they evaluate their work, including standards

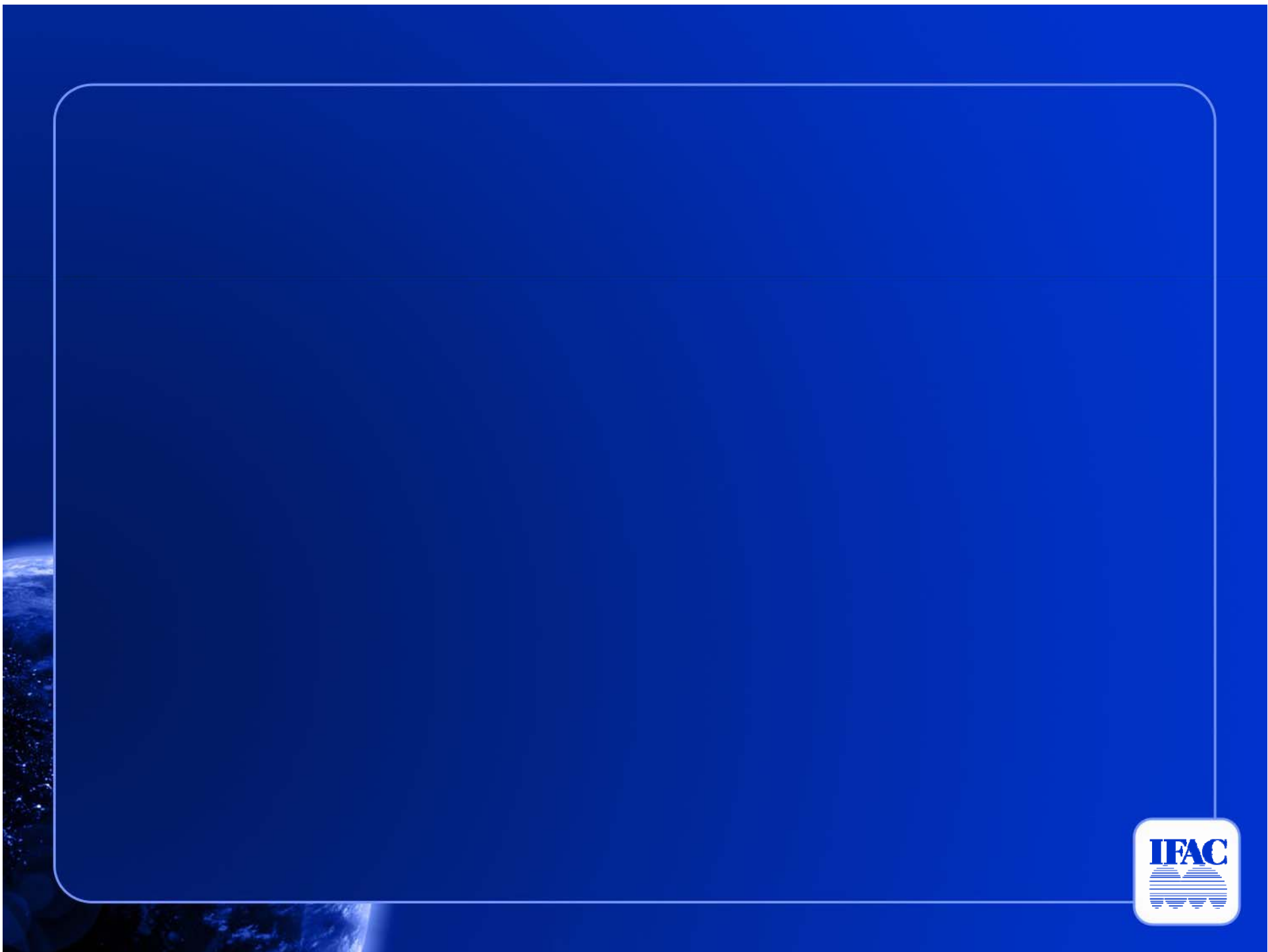
Our specific suggestions

- Criterion 1 (cost benefits to society as a whole) – not operational or practical, but is a good goal. Not a useful criterion to measure IFAC activities against
- Criterion 2 (democratic principles and processes) – this describes the due process and accountability which IFAC and its related bodies strive to achieve.
- Criterion 3 (cultural and ethical diversity) – this is really part of Criterion 2. Any international bodies must take this into account in their policies and procedures, to have any validity.

IESBA feedback on the draft paper

- Feedback on a "big picture" basis, rather than individual wording in the paper
- Willingness to engage in a dialogue with the author to clarify scope and express our views
- By which means should our Board respond?

Board comments



"Public Interest" in the Code of Ethics

- Several mentions in cover page and Preface: *IFAC* must act in the public interest
- 100.1: the "*accountancy profession*" and each "*professional accountant*" each have a responsibility to act in the public interest

- 100.6: the conceptual framework used in the Code "assists *professional accountants* in complying with the ethical requirements of this Code and meeting their responsibility to act in the public interest"
- 100.11: when a *professional accountant* encounters unusual circumstances where the outcome may not be in the public interest, they should consult a prof body or regulator

- 200.12: there is an expectation that *members of an audit team* shall act in the public interest
- 290.4 it is in the public interest that *audit teams, firms and network firms* be independent of audit clients [copied in 291.3]
- 290.25: PIEs need additional provisions because of "the extent of public interest" in them [and similar for 291.28]

- Proposed 225.1 and 360.1 (Fraud and illegal acts): proposed requirement on the *professional accountant* to report an illegal act to the appropriate authority if all other measures have failed and disclosure would be in the public interest