

A DEFINITION OF THE PUBLIC INTEREST¹

IFAC defines the public interest as the net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision or policy.

Introduction

This policy position paper aims to present a practical definition that identifies the public interest and enables one to assess the extent to which actions, decision, or policies are made in the public interest. IFAC developed this definition in the context of its mission, and is of the view that it possesses relevance to the wider accountancy profession and beyond.

IFAC's mission is *"to serve the public interest by: contributing to the development, adoption and implementation of high-quality international standards and guidance; contributing to the development of strong professional accountancy organizations and accounting firms, and to high-quality practices by professional accountants; promoting the value of professional accountants worldwide; speaking out on public interest issues where the accountancy profession's expertise is most relevant."* To determine whether IFAC is achieving its organizational objectives in fulfilling its mission, it is important to understand what is meant by the term "public interest." In applying the definition, IFAC must consider the implications of its actions, decisions, and policies on society overall. In this sense, the definition acts much like a filter between the mission of IFAC and its work.²

The paper presents a definition, and explains what it means by the terms "public" and "interest." While IFAC stresses that the "public" is inclusive of all society, it identifies the broad groups that comprise the public and how each group is impacted by the accountancy profession. For "interests," the benefits that should be realized from the responsibilities of the accountancy profession and the associated costs are identified. These benefits and costs are generally, but not always, economic in nature and their implications will impact different levels of society. The paper continues by providing a means to assess the extent to which any action, decision, or policy is in the public interest. In doing so, two "general assessments" are identified. The Assessment of Costs/Benefits evaluates the extent to which something is in the public interest in terms of costs and benefits while the Assessment of Process evaluates the extent to which something is in the public interest as a process—an undertaking that should reflect the qualities of transparency, public accountability, independence, adherence to due process, and participation that is inclusive of a wide range of groups within society.

¹ IFAC's Policy Position Papers are issued as "dynamic" documents, subject to review and revisions, as thinking on topics evolves, as circumstances change, and as feedback is received. In light of the range of diverse views on this subject, and the expectation of considerable comment, IFAC undertakes to review and reissue this paper two years after being issued, and to consult with those affected by its public interest activities.

² See *Appendix 2: Example of Assessment of the Public Interest for Standard Setting*, for an example of how standard setting in the public interest may be assessed in respect to the independent standard-setting boards supported by IFAC—refer to www.ifac.org/

The definition of the public interest was developed using four types of sources.³ First, a range of literature was reviewed, and relevant elements that could assist in determining what it means to act in the public interest were identified. Different aspects were taken from different strands of thought, which resulted in a “mixed-attributes” approach to making such a determination. The literature reviewed encompassed centuries of political, economic, and theological philosophy. Second, a variety of contemporary professional literature and academic research about the public interest and its relevance to the accountancy profession was reviewed. This enabled the public interest implications in relation to regulation, standard setting, market deficiencies, ethics, conflicts of interests, corporate governance, and accounting crises and scandals to be identified. Third, reference was made to the missions, publications and policies of IFAC’s member organizations, which are professional accountancy organizations and regional organizations, as well as those of relevant stakeholders. This provided an understanding of the manner and extent to which similar organizations addressed the public interest (e.g., standard setters, regulators, non-governmental organizations, and those responsible for licensing and registration of accounting professionals). Finally, reference was made to IFAC’s own body of documents, which ultimately govern the mission of the organization. These reflect IFAC’s orientation on matters concerning regulation, governance, and the marketplace for accounting and auditing.

‘Public Interest’ Definition

IFAC defines the public interest as:

The net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision or policy.

This definition can be readily applied to the accountancy profession and its responsibilities to the public. One can reasonably assert that some groups of the public, e.g., investors, employees, or other stakeholders may, due to their proximity to a particular institution, be more impacted by the work of accountants than others. However, the implications of the work of the accountancy profession—the level of public confidence—can affect the public on a much wider scale.

Who is the “Public” And What are its “Interests”?

Who is the “Public”?

On the broadest level, IFAC considers that the “public” includes the widest possible scope of society: for example, individuals and groups sharing a marketplace for goods and services (including those provided by government), as well as those seeking sustainable living standards and environmental quality, for themselves and future generations. This includes:

- Investors, shareholders, and business owners of public and private institutions – This encompasses all parties whose resources and well-being depend upon the performance of such institutions. These parties rely upon sound financial information to make decisions about the allocation of their resources. This not only includes investors, but also employees and those who have pensions and other vested interests tied to the performance of such institutions.
- Consumers and suppliers – This encompasses all parties who are affected by the costs, quality, and availability of goods and services. Consumers and suppliers ultimately bear the impact of

³ See *Appendix 1: Resources and Conceptual Development*, for a description of the historical literature, academic research, and other sources used to develop this paper—refer to www.ifac.org/

financial decision makers (and those who advise them). The quality of financial information and decision making impacts the efficiency of resource management, which in turn impacts goods and services produced.

- Taxpayers, electorates, and citizens – This encompasses all parties who are impacted by the work of public sector accounting professionals, who facilitate financial information, make financial decisions, and advise policymakers and elected officials. These include immediate short-term impacts, as well as medium and longer-term considerations and matters of sustainability. The efficient management of public resources (e.g. tax revenues, public properties, governmental organizations, infrastructure, and other resources) affects their costs, quality, and availability and, through these, society as a whole.

Although the impact of the work of the accountancy profession differs among these groups, there is a fundamental obligation for the profession to act in the public interest regardless of its proximity to these different groups.

What are the “Interests” of the Public?

In the broadest respect, “interests” are all things valued by individuals and by society. These include rights and entitlements (including property rights), access to government, economic freedoms, and political power. Interests are things we seek to acquire and control; they may also be ideals we aspire to, and protections from things that are harmful or disadvantageous to us. The accountancy profession helps realize certain interests of society, many of which are economic in nature and related to the efficient management of resources. These interests include:

- increased economic certainty in the marketplace and throughout the financial infrastructure (e.g., banking, insurance, investment firms, etc.);
- sound, decision-useful financial and non-financial reporting for stakeholders, investors, and all parties in the marketplace (directly or indirectly) impacted by such reporting;
- a high degree of comparability of financial and non-financial reporting and auditing across different jurisdictions;
- sound and transparent financial and non-financial information and decision making on the part of governments and public sector organizations to their constituents;
- sound corporate governance and performance management in private and public sector organizations; and
- increased efficiency (i.e., less costly) and/or the minimization of natural resource depletion in the production of goods and services, thereby enhancing the welfare of society by their greater availability and accessibility.

The Responsibilities of Accountants and the Accountancy Profession Acting in the Public Interest

Accountants and the accountancy profession play a central role in realizing the public interests listed above. Individual professional accountants (e.g., practitioners, accountants in business, and accountants in the public sectors) should:

- provide sound financial, non-financial, and government reporting to stakeholders, investors, taxpayers, and all parties in the marketplace directly and indirectly impacted by financial and non-financial reporting from all organizations, across all sectors, and spanning all sizes, including public sector institutions; and

- provide truthful, effective communication with parties (e.g. boards, stakeholders, management, and others) directly and indirectly related to the corporate governance processes for which they are accountable.

As an established profession the accountancy profession should:

- require that accounting professionals apply high standards of ethical behavior and professional judgment;
- work with the regulatory community, and governments to develop and implement high-quality professional standards for financial reporting, auditing and assurance, ethics, public sector financial reporting, and accounting education;
- promote high-quality international standards to facilitate the comparability of financial reporting and auditing (across different jurisdictions);
- specify appropriate educational requirements and qualifications for professional accountants;
- maintain constructive dialogue with governments, regulators, universities, and other financial industries (e.g., banking, insurance, valuation, actuarial);
- enable ongoing consideration of new forms of reporting such as XBRL, integrated reporting and non-financial reporting formats; and
- ensure that disciplinary arrangements are in place (e.g., the respective committee, regulatory mechanism, or oversight group responsible for imposing sanctions or disciplinary measures) to address unethical matters, violations of law, or non-compliance with professional regulations.

The Regulatory Community and the Accountancy Profession: The Importance of Joint Accountability for the Public Interest

The role of the regulatory community in working with the profession is integral to the public interest. Most jurisdictions contain, in relation to the profession, a mixture of self-regulation and external regulation. The regulatory community is comprised of government-mandated institutions, public oversight bodies, and licensing agencies charged with the legal authority to ensure the quality and provision of services provided by the accountancy profession. As a result, the accountancy profession and regulatory community act in a public/private arrangement of shared regulation that bears joint accountability for the actions of the profession, as well as their impact on society as a whole.

General Assessments for Determining if Actions, Decisions, or Policies are in the Public Interest

A definition of the public interest has limited practicality without some way of determining whether something does or does not serve the public interest. To determine whether an action, decision, or policy has been undertaken in the public interest, an assessment can be made against public interest criteria, being conscious of the dimensions of both outcome (net benefits) and process. That is, IFAC considers that there are two general assessments:

- The Assessment of Costs/Benefits - The extent to which, for society, as a whole the benefits of the action, decision, or policy outweigh the costs; and
- The Assessment of Process - The extent to which the manner of considering the action, decision, or policy was conducted with the qualities of transparency, public accountability, independence, adherence to due process, and participation that includes a wide range of groups within society.

IFAC acknowledges the need for proportionality (or “scalability”) in both assessments. It is important that the application of these assessments should be proportional to the importance of the matter under consideration. In this respect, the degree to which each assessment is applied should correspond to the size, scope, and potential repercussions of the subject under evaluation. Small actions and decisions should not ignore these assessments, but clearly undertaking them will be far less complex and involve fewer resources than more important, critical actions, or decisions. A proportional approach should be applied to take into account the time, manpower, and resources involved in evaluating subject matter against the two assessments. Cost/benefit analyses could often imply an extent and rigor of analysis that is disproportionate to the importance of the issue under consideration. In the same way, rational, efficient approaches must be considered when striving to conform to fair, balanced, and transparent processes, for example, when setting up governance structures, processes, and mechanisms.

Furthermore, consideration of proportionality should also be seen in the context of organizational size, type, and capacity for business enterprises and other entities. For example, when regulators, professional accountancy organizations, and others specifically address matters involving accounting firms, they should evaluate the public interest in terms of the actions, decision, and policies that affect accounting firms of all sizes (ranging from small- and medium-sized practices to large, global networks). Consideration should also be given to the types of services provided, and the types of organizations receiving those services.

In addition, differences in cultures, societal values and ethical systems should be considered in assessing whether or not the public interest is being served, especially where institutions are operating internationally. Culture and ethics vary from one society to another and influence how each society regards the costs and benefits of a public interest issue. They also determine how each society approaches the procedural aspects of policymaking, and the extent to which the procedural qualities described in this paper are considered appropriate.

Finally, it is important to note that the private and public interest are not necessarily in conflict. A profitable entity may be generating public benefit. However, the two may diverge where, for example, there are externalities or circumstances where one imposes considerable negative impacts on the other. Similarly, accountants working in the interest of their clients are typically also acting in the public interest, where for example, higher quality financial reporting or more efficient taxation collections result.

The Trade-Off between Outcomes and Process

IFAC is of the view that demonstrating that the public interest has been served requires that any action, decision, or policy is assessed against public interest criteria, being conscious of the dimensions of both outcome (net benefits) and process—that is, undertaking the two assessments described above. However, it must also be recognized that the two assessments may not always be met to the same degree, in which case determining what is in the public interest involves a balance, or trade-off, between the two assessments. The need for such a trade-off may imply that the benefits to society as a whole could be further enhanced, and that the processes applied in undertaking an action, decision, or policy, may need to be further developed.

For example, the independent standard-setting boards, supported by IFAC, issue high-quality standards that can be adopted and implemented across the globe. They do this within robust governance arrangements. Assessing whether the boards’ actions and decisions are in the public interest, involves an assessment of the outcome (i.e., the net benefits derived from the development and issue of high-quality standards), and the process (i.e., the due process and governance arrangements.) Before the governance reforms of 2003, standard-setting boards issued high-quality standards, but had governance

arrangements that did not receive widespread acceptance from those outside of the profession. An assessment of the outcome—the standards—would arguably have shown that the public interest was being served; while an assessment of the process may have argued for improvement. Consequently, the governance reforms, which enhanced the due process and introduced public oversight of standard setting, aimed to demonstrate that the boards were acting in the public interest, from both outcome and process perspectives. Overall, the implementation of these governance reforms demonstrated that the public interest was being better served as the process basis of assessment was being much better achieved.

Importantly, when assessing whether standard setting has been undertaken in the public interest, it is relevant to make such assessment considering the dimensions of both outcome and process. Clearly, these assessments will depend upon a number of matters, such as contextual factors, the stage of development of the standard-setting boards, and the degree of influence of institutions that aim to shape standards.

Assessment of Costs/Benefits

The first assessment is a consideration of the public interest in terms of negative and positive outcomes or “costs and benefits” for society as a whole. Cost/benefit analysis is the formal process of evaluating the negative and positive outcomes—both short and long term—of a particular action, decision, or policy to determine whether or not (and the extent to which) positive outcomes outweigh negative ones. Costs and benefits can be assessed in both quantitative and qualitative terms.

Quantitatively, costs and benefits are measured in numerical terms (e.g., cost in dollars, human casualty rates, or acres of depleted rainforests). Qualitatively, they are measured in terms of opinions and judgments, which are often collected through public consultation, interviews, or surveys. For example, while we can establish the cost of a major investment project for an organization, we may not be able to express quantitatively the impact that the project may have on staff morale.

It is important to distinguish the application of cost/benefit analysis in a societal context from the project or investment appraisal undertaken by individual organizations seeking to maximize profit. It is feasible for an action to have a positive net benefit for an entity, while having a net cost to society as a whole. In the public interest context, this assessment refers to the impact on society as a whole, rather than to the entity. It is an assessment of whether or not an action, decision, or policy does more good to the public than harm. However, when assessing the impacts on society as a whole, it is important to consider the distribution of benefits and costs, between different parts of society. The assessment should be cognizant of situations where an action, decision, or policy that benefits one group within society, may come at a cost to another. Those undertaking the action, decision, or policy need to consider whether such an outcome was anticipated, and desired.

Additionally, cost/benefit analysis is often followed by some form of post-implementation review or process used to evaluate the effectiveness of policies or actions taken. This is to assess whether those policies or actions have fulfilled their intended purpose, and the extent to which costs and benefits were accurately determined. In many cases, post-implementation review also provides information into how such policies or actions can be further modified for improvement, and concludes the cost/benefit analysis cycle.

Consideration of environmental impacts is also critical as policymakers must consider the role those impacts have on the public interest. Such impacts include changing economic conditions (e.g. financial crisis), significant shifts in public values and the collapse of major institutions. Such impacts can affect public values and the regulatory environment, as well as the priorities of government and society.

As noted previously, cost/benefit analyses and post-implementation reviews should be undertaken in a manner proportional to the importance of the matter under consideration. Cost/benefit analysis can be a significant undertaking in terms of time, manpower, and other resources. As the significance of an action or decision (and the associated implications for the public interest) become greater, so too should be the investment in cost/benefit analysis.

Assessment of Process

The second assessment is a consideration of the procedural aspects of acting in the public interest. This involves considering the extent to which an action, decision, or policy was developed or conducted with the qualities of transparency, public accountability, independence, adherence to due process, and participation that includes a wide range of groups within society. For the accountancy profession, these decisions and actions include, for example, those associated with the development of laws, with regulatory and compliance systems, and with standard setting. Any institution or public sector body designed to meet its objectives by acting in the public interest should adhere to certain qualities.

Transparency

Transparency is the process of making information accessible to the public. Such information includes governance processes such as rules and regulations, meeting minutes, and voting records, financial statements, and, the decisions that are reached, including the process by which they are made.

Public Accountability

Public accountability refers to processes designed to ensure that public organizations meet their obligations to their stakeholders and society at large. One example is public oversight. Public oversight is a form of checks and balances whereby one body is appointed to monitor the due process, independence, and performance of another body.

Independence

Institutions charged with acting in the public interest should be established to reinforce independence from special interest groups, political pressures, and personal interests—matters that can have undue influence over responsibilities to the public. They should enable and require the consideration of potential conflicts of interest and threats to independence. The independence of such bodies should be considered in their design and composition, incorporated into their procedures of due process, and ensured by their funding arrangements.

Competence

Institutions charged with acting in the public interest should also ensure that they have the capability, in terms of appropriate, competent, and knowledgeable personnel resources, to ensure that the objectives of the organization, project, or outcome can be achieved. This may be achieved, for example, by having on a standard setting board individuals engaged in giving operational effect to the standards.

Establishment of, and Adherence to, Due Process

The establishment of, and adherence to, due process refers to the establishment of procedures of governance and operation, and the accurate, consistent observance of them. Due process provides the public with a concise blueprint, documented in a charter or similar format, of how those entrusted with authority must exercise it.

Inclusive Participation from a Wide Range of Groups within Society

Inclusive participation from a wide range of groups within society refers to two main concepts:

- *Fair and balanced participation in decision making* - all institutions charged with acting in the public interest should be comprised of individuals that reflect a full, balanced range of stakeholders or constituencies of the public. The achievement of this objective needs to be balanced against the need for institutions to perform satisfactorily, by ensuring that they have requisite levels of expertise.
- *Opportunity for public consultation* - this process provides for greater inclusiveness in the design of public policy by involving the participation of a wide range of opinions and expertise. It also allows for greater transparency by providing the public with insights into how policymakers approach the design of policy. It is critical for individuals and groups at all levels of society to have confidence in the accountancy profession as an element in the efficient functioning of markets and the legitimacy of their regulatory mechanisms. This legitimacy is maintained by adherence to the established rules and processes of governance.

This Policy Position has been prepared by IFAC. The approved text of this Policy Position is published in the English language.

For further information, please email: publicpolicy@ifac.org

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IFAC'S MISSION

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- Contributing to the development, adoption and implementation of high-quality international standards and guidance
- Contributing to the development of strong professional accountancy organizations and accounting firms, and to high-quality practices by professional accountants
- Promoting the value of professional accountants worldwide

Speaking out on public interest issues where the accountancy profession's expertise is most relevant



**International
Federation
of Accountants**

529 Fifth Avenue, 6th Floor, New York, NY 10017
T + 1 (212) 286-9344 F +1 (212) 286-9570
www.ifac.org