

## APPENDICES

### Appendix 1: Resources and Conceptual Development

*In developing the definition of the public interest presented in this paper (as well as the corresponding general assessments), a variety of literature from four different types of sources was reviewed: 1) philosophical literature and other works related to the historical development of the concept of the public interest; 2) contemporary literature and research on the public interest and its relationship to the accountancy profession, regulation, and topics discussed in this paper; 3) publications of professional accountancy organizations and related global institutions such as the United Nations and OECD; and 4) IFAC's internal reference documents.*

#### Historical Works and Philosophical Literature

A broad review of the philosophical epistemology from which the concept of public interest evolved provides a general understanding of its historical basis, how it is analyzed, and its implications on the different aspects of society. Originating with Plato<sup>1</sup> and then articulated in Aristotle's<sup>2</sup> treatises on "ethics" is the notion of the individual and the virtues one should ideally enact in society.<sup>3</sup> Here, the responsibility is placed on the role of the individual to direct his/her good upon society as the highest virtue. The early Christian thinkers such as St. Augustine<sup>4</sup> and Thomas Aquinas<sup>5</sup> expounded upon "natural law," which is the notion that certain values or rights are universally understandable and built-in to human reasoning. These values and rights play into the collective functions of society. An effective example would be society's role in ensuring justice. This thinking was progressed by Enlightenment philosophers such as Thomas Hobbes,<sup>6</sup> John Locke,<sup>7</sup> Jean-Jacques Rousseau,<sup>8</sup> and Immanuel Kant,<sup>9</sup> each of whom articulated the relationships between individual and society, most notably the role that government plays in facilitating property rights, human rights, and law. It can be argued that the qualities that should be pursued under the Procedural Assessment of the public interest as described in this paper are based on these philosophical views.

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<sup>1</sup> Plato; *The Republic*; Lee Desmond and Lane, Melissa; Penguin Classics Edition; Penguin; New York; 2007.

<sup>2</sup> Aristotle; *The Nicomachean Ethics*; Ross, David (Translation); Oxford University Press; New York; 1998.

<sup>3</sup> Aristotle; *Eudemian Ethics*; Kenny, Anthony; Oxford University Press; New York, 2011.

<sup>4</sup> Saint Augustine of Hippo; *City of God*; Dods, Marcus; Hendrikson Publishers; Massachusetts; 2009.

<sup>5</sup> Aquinas, Thomas; *Summa Theologica* (Complete and Unabridged - Kindle Edition); Coyote Canyon Press; California; 2010.

<sup>6</sup> Hobbes, Thomas; *Leviathan* (Kindle Edition); Public Domain Books; 2002.

<sup>7</sup> Locke, John; *Second Treatise of Civil Government*; Prometheus Books; New York; 1997.

<sup>8</sup> Rousseau, Jean-Jacques; *The Social Contract*; Penguin Classics; New York; 1968.

<sup>9</sup> Kant, Immanuel; *Ethical Philosophy: Grounding for the Metaphysics of Morals & Metaphysical Principles of Virtue*; Hackett Publishing Co.; Indiana; 2005.

The economic dimension of the public interest, which is centered upon the considerations of cost/benefit assessments emerge from post-Enlightenment thinkers such as Jeremy Bentham,<sup>10</sup> John Stuart Mill,<sup>11</sup> and Vilfredo Pareto.<sup>12</sup> These thinkers explored the concept of what is good for society in relationship to the groups that comprise it. Considerations for addressing the dilemma of what is best for a majority, as opposed to a minority, of society in respect to the allocation of goods were proposed by looking at things such as natural law, precedent, and philosophical explanations for identifying exceptions. Pareto's work advanced the notion of economic efficiency, and the challenge of improving the well-being of one while not diminishing it for others.

In the 20<sup>th</sup> Century, modern philosophers effectively tied the ethical, political, and economic dimensions of the relationship between individual and society together to develop a more coherent concept of the public interest. John Dewey<sup>13</sup> outlined some of the critical tensions that emerge between the public and the state in the quest for fulfilling common interests in society, as well as the challenges faced by democracies in doing so. Arthur C. Pigou<sup>14</sup> advanced the concept of the public interest by linking it to the role of government regulation that is designed to correct inefficiencies and inequities in the marketplace. This gave rise to "Public Interest Theory," which views the intervention of government in the marketplace as essential for society. George Stigler,<sup>15</sup> Duncan Black,<sup>16</sup> and Gordon Tullock's<sup>17</sup> work on "Public Choice Theory" puts forward the notions that, in a democracy, the public interest can be compromised by special interest and advocacy groups and the self-interested motivations of politicians and office holders. The importance of mechanisms such as public oversight and transparent processes offer some counterbalance to such motivations. One can gather a keen understanding of the dynamics between economics and government, many of which intersect in the realm of the public interest, from economist Milton Friedman.<sup>18</sup>

### Contemporary Literature and Research

A variety of contemporary professional literature and academic research about the public interest was reviewed, and its relevance to the accountancy profession identified. Some contemporary studies have addressed the public interest by examining its implications in relation to regulation, standard setting, market deficiencies, accounting ethics, conflicts of interests, corporate governance, and accounting crises and scandals. While the conclusions vary, the contemporary literature permitted a better understanding of the gaps that exist between the marketplace for accountancy services and the expectations of the public. They expose the need for greater definitiveness in applying the concept of the public interest to the accountancy profession.

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<sup>10</sup> Bentham, Jeremy and Mill, John Stuart; *Utilitarianism and Other Essays*; Ryan, Alan (Editor); Penguin Classics; New York; 1987.

<sup>11</sup> Mill, John Stuart, *On Liberty*, The Library of Liberal Arts Ed., Volume 25 of the Harvard Classics, the P.F. Collier & Son 1909 edition, 1992..

<sup>12</sup> Pareto, Vilfredo; *Manual of Political Economy*; Augustus M. Kelley, Publishers; 1971.

<sup>13</sup> Dewey, John; *The Public and its Problems*; Ohio; Swallow Press; 1954.

<sup>14</sup> Pigou, Arthur C.; *The Economics of Welfare*; Macmillan Publishers; London; 1939.

<sup>15</sup> Stigler, George; "The Theory of Economic Regulation," *The Bell Journal of Economics and Management*, 1971.

<sup>16</sup> Black, Duncan; *Theory Committees and Elections*, Cambridge University Press; Cambridge; 1958.

<sup>17</sup> Tullock, Gordon; *The Calculus of Consent*; Liberty Fund, Inc.; Indiana; 2010.

<sup>18</sup> Friedman, Milton, *Capitalism and Freedom*. University of Chicago Press, Chicago, 1962.

The academic literature on the public interest served as a good starting point for gaining a broad understanding of the breadth and width of the topic matter. Bruce Douglass's 1980 article on explaining the common good and the public interest (and drawing the necessary distinction between the two) provided a historical overview of the development of these concepts.<sup>19</sup> Carol Lewis explored the challenge of defining the public interest in her 2006 article "In Pursuit of the Public Interest."<sup>20</sup> June O'Conner's article, "Making the Case for the Common Good in the Global Economy" provided a more global perspective on assessing the broad dimensions of the common good.<sup>21</sup>

With respect to the accounting profession more specifically, Laura Davenport and Steven Dellaportas's article "Interpreting the Public Interest: A Survey of Professional Accountants" provided insights on a study that surveyed professional accountants' knowledge and perceptions of the public interest.<sup>22</sup> In 2005, *Accounting & Accountability Journal* published a series of articles on the public interest with perspectives from around the world. In this series, Cheryl Lehman explored the relationship between the accounting profession and the social roles it has created.<sup>23</sup> Richard Baker attempted to look at the common rhetorical claims surrounding the notion that accountants act within the public interest and sheds further light upon its meaning.<sup>24</sup> Norio Sawabe discussed how accounting helps to shape public and private interests.<sup>25</sup> Cameron Graham and Dean Neu explore common approaches to understanding the relationship between accounting and the public interest.<sup>26</sup> Christine Cooper argued that accounting should have a stronger social role.<sup>27</sup>

Additional literature was used to develop the two general assessments posed in this paper. Carl Buxbaum provided insight into the function and limits of cost/benefit analysis.<sup>28</sup> Luis Guasch and Robert Hahn provide insight into the cost/benefit dimension of regulation (and its effectiveness) for developing countries.<sup>29</sup> Robert Keohane offered insights into the question of governance and accountability on a global, institutional level.<sup>30</sup> Martha Finnemore and Kathryn Sikkink offer insight into the concept of understanding the ethics and values of cultures internationally (this point is in reference to *Respect for*

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<sup>19</sup> Douglass, Bruce; "The Common Good and the Public Interest," *Political Theory*, Vol. 8, No. 1 (Feb. 1980), p.p. 103-117.

<sup>20</sup> Lewis, Carol W.; "In Pursuit of the Public Interest," *Public Administration Review*, September/October; 2006.

<sup>21</sup> O'Conner, June; Making a Case for the Common Good in the Global Economy; *The United Nations Human Development Reports* [1990-2001].

<sup>22</sup> Davenport, Laura and Dellaportas, Steven; "Interpreting the Public Interest: A Survey of Professional Accountants," *Australian Accounting Review*, No. 48, Vol. 19, Issue 1; 2009.

<sup>23</sup> Lehman, Cheryl R.; "Accounting and the Public Interest: All the World's a Stage," *Accounting, Auditing & Accountability Journal*; 18, 5; 2005.

<sup>24</sup> Baker, Richard C.; "What is the Meaning of the 'Public Interest?' Examining the Ideology of the American Public Account Profession," *Accounting, Auditing & Accountability Journal*; 18, 5; 2005.

<sup>25</sup> Sawabe, Norio; "Accounting for the Public Interest: A Japanese Perspective," *Accounting, Auditing & Accountability Journal*; 18, 5; 2005.

<sup>26</sup> Graham, Cameron and Neu, Dean; "Editorial: Accounting Research and the Public Interest," *Accounting, Auditing & Accountability Journal*; 18, 5; 2005.

<sup>27</sup> Cooper, Christine; "Accounting for the Public Interest: Public Ineffectuals or Public Intellectuals," *Accounting, Auditing & Accountability Journal*; 18, 5; 2005.

<sup>28</sup> Buxbaum, Carl. B., "Cost-Benefit Analysis: The Mystique vs. the Reality," *The Social Service Review*, Vol. 55. No. 3 (September 1981), p. 456

<sup>29</sup> Guasch, Luis, T. and Hahn, Robert W. "The Costs and Benefits of Regulation: Implications for Developing Countries," *The World Bank Research Observer*, Vol. 14, No. 1 (Feb., 1999), p. 138.

<sup>30</sup> Keohane, Robert O.; *Global Governance and Democratic Accountability*, Department of Political Science, Duke University; 2002.

differences in cultures and ethical systems under 2<sup>nd</sup> Assessment).<sup>31</sup> Samuel Brittan described the economic contradictions that arise in democracies, some of which intersect in the domain of the public interest.<sup>32</sup>

### **Publications of Professional Accountancy Organizations and Related Institutions**

Reference was made to the missions, publications, and policies of IFAC's member organizations (all of which are professional accountancy 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).

Some professional accountancy organizations have addressed the public interest in their mission statements and literature. In considering the development of our definition, IFAC referred to the Accountancy Foundation Review Board's 2002 document, *Protecting the Public Interest*.<sup>33</sup> This report lists the responsibilities that the profession has to the general public, as described separately by the Association of Certified Chartered Accountants (ACCA), the Chartered Institute of Management Accountants (CIMA), the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Chartered Accountants of England and Wales (ICAEW), the Institute of Chartered Accountants of Ireland (ICAI), and the Institute of Chartered Accountants of Scotland (ICAS). These descriptions demonstrated a reasonable degree of consistency in illustrating the responsibilities that accountants (members) must have to society in the larger sense, going beyond the exclusive needs of the client. In addition, the American Institute of Certified Public Accountants (AICPA) describes the profession's responsibility to the public interest in its *Code of Professional Conduct*<sup>34</sup> by identifying the profession's responsibility to a wide range of groups in the general public, including "clients, credit grantors, governments, employers, investors, the business and financial community, and others who rely on the objectivity and integrity of certified public accountants to maintain the orderly functioning of commerce." The Canadian Institute of Chartered Accountants (CICA) commissioned an independent research report to "evaluate how well the role of the auditor is understood, and how effectively the profession is perceived to be fulfilling its public service mandate by stakeholders and influencers."<sup>35</sup> They stress that "all participants in the corporate governance system—management, boards of directors, audit committees, auditors, and regulators—must work together to protect the public interest."

The publications of a number of global organizations related to the financial industries addressed several dimensions of the public interest debate by providing modern definitions, approaches, and guidelines to theoretical issues pertaining to the public interest. With respect to providing a contemporary understanding of the "general welfare," which corresponds to the "interests" of the public, one can turn to the United Nations Declaration of Human Rights, which refers to universally recognized protections,

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<sup>31</sup> Finnemore, Martha and Sikkink, Kathryn; "International Norm Dynamics and Political Change," *International Organization*, Vol. 52, No. 4; 1998.

<sup>32</sup> Brittan, Samuel; "The Economic Contradictions of Democracy," *British Journal of Political Science*, Vol. 5, No. 2; 1975.

<sup>33</sup> The Accountancy Foundation Review Board, *Protecting the Public Interest: Introducing the Work Program of the Review Board*, 2002, p. 19.

<sup>34</sup> AICPA, *Code of Professional Conduct*, ET Section 53, Article II – the Public Interest; The American Institute of Certified Public Accountants.

<sup>35</sup> Canadian Institute of Chartered Accountants (CICA) and Kroll Associates; *Protecting the Public Interest: The Role of the Chartered Accountancy Profession*; Canadian Institute of Chartered Accountants (CICA); 2001.

freedoms, and standards that should be upheld for all individuals.<sup>36</sup> *The Heritage Foundation/Wall Street Journal's 2010 Index of Economic Freedom*<sup>37</sup> addresses this notion as a series of freedoms, such as personal choice, voluntary exchange coordinated by markets, freedom to enter and compete in markets, and protection of persons and their property from aggression of others.<sup>38</sup>

With respect to the development of IFAC's Assessment of Procedure, many of the qualities in this approach are consistent with the United Nations, which describes the principles associated with the rules of governance, due process, and all necessary checks and balances among relevant governing bodies and how they must be defined to ensure that a structure for authority exists, that the structure has been legitimately agreed upon through democratic means (e.g., referendum, by representatives chosen by an electorate, or by a commission chosen by elected officials), and that it can be interpreted consistently by the public.<sup>39</sup>

Some of the fundamental arguments of public choice theory are addressed on a practical level by the Organisation for Economic Co-Operation and Development's (OECD).<sup>40</sup> The OECD published guidelines to help policy-makers and public managers consider existing conflict of interest policy and practices relating to public/civil servants, government employees and holders of public office. The OECD also addresses the concept of public consultation in the *Regulatory Policy, Public Governance and Territorial Development Directorate; Background Document on Public Consultation*.<sup>41</sup>

### IFAC Internal Reference Documents

Finally, reference was made to IFAC's documents, which ultimately govern the mission of the organization. These include: the IFAC Constitution and Bylaws; terms of references for the international independent standard-setting boards that are supported by IFAC (these include the International Auditing and Assurance Standards Board (IAASB), the International Accounting Education Standards Board (IAESB), the International Ethics Standards Board for Accountants (IESBA), and the International Public Sector Accounting Standards Board (IPSASB)); the 2003 IFAC Reforms Agreement, which established the Monitoring Group and IFAC's own Public Interest Oversight Board (PIOB); and IFAC's policy position papers and submissions to other organizations, which reflect the organization's orientation on matters concerning regulation, governance, and the marketplace for accounting and audit.

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<sup>36</sup> See the Universal Declaration of Human Rights (art. 1), adopted by the United Nations General Assembly resolution 217 A (III) of 10 December 1948. This resolution outlines a broad scope of internationally recognized human rights as part of the International Bill of Human Rights.

<sup>37</sup> 2010 Index of Economic Freedom, The Heritage Foundation and the Wall Street Journal, 2010, <http://www.heritage.org/index/>

<sup>38</sup> *Economic Freedom of the World: 2009 Annual Report*, Cato Institute, Washington, DC, 2009, p. 3.

<sup>39</sup> The United Nations Security Council, *The Rule of Law and Transnational Justice in Conflict and Post-Conflict Societies, Report of the Secretary General*, (S/2004/616), August, 2004, p. 2.

<sup>40</sup> OECD Policy Brief: *Guidelines for Managing Conflict of Interest in the Public Service*; Organisation for Economic Co-Operation and Development; (2005)

<sup>41</sup> Organisation for Economic Cooperation and Development (OECD); *Regulatory Policy, Public Governance and Territorial Development Directorate; Background Document on Public Consultation*; p.1; <http://www.oecd.org/dataoecd/4/43/36785341.pdf>

## Appendix 2: Example of Assessment of the Public Interest for Standard Setting

The following descriptions do not detail all of the ways in which assessments of outcome and process may be undertaken in respect to standard setting; they are indicative examples only. In Policy Paper 3 *International Standard Setting in the Public Interest*,<sup>42</sup> IFAC outlines the rationale for the regulatory arrangements put in place for setting international standards for auditing and assurance, ethics, and accounting education; arrangements in which responsibility is shared between the public sector and the private sector

### The Assessment of Costs/Benefits

It is the extent to which, for society as a whole, the benefits of the action, decision, or policy outweigh the costs.

*Impact Analysis* - IFAC is currently encouraging and assisting the independent standard-setting boards to establish impact analysis processes in respect to the development of standards. These processes are qualitative approaches and contain methods similar to regulatory impact assessments used by governments and other organizations for developing public policy, and ensuring that regulatory action is justified, appropriate, and cost-effective. To date, the IAASB and IESBA have both pilot tested impact analyses.

The IAASB pilot-tested an impact analysis process for the revision of ISA 610, *Using the Work of Internal Auditors* (see [www.ifac.org/auditing-assurance/projects/using-work-internal-auditors](http://www.ifac.org/auditing-assurance/projects/using-work-internal-auditors)). Impact analysis methodologies are outlined in a preliminary document (see [www.ifac.org/sites/default/files/meetings/files/5035.pdf](http://www.ifac.org/sites/default/files/meetings/files/5035.pdf)).

When the pilot testing is complete, and revisions are made to the impact analysis processes, as appropriate, they will become incorporated into the normal due process of the board. Impact analysis will contribute to the development of high-quality standards by providing a systematic and structured approach to obtaining information about the effects of a proposed new standard on relevant stakeholders, which includes taking into consideration accounting firms and entities across a broad spectrum of size and complexity.

The application of these analyses 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. The proportional application of the analysis should be documented and communicated as part of the board's due process. For example, the impact analysis work of the IESBA involved a detailed process for the board's development of additional guidance on "Conflicts of Interest" ([www.ifac.org/sites/default/files/publications/files/IESBA%20Strategy%20and%20Work%20Plan%202011-2012.pdf](http://www.ifac.org/sites/default/files/publications/files/IESBA%20Strategy%20and%20Work%20Plan%202011-2012.pdf)), while a more limited or proportional approach was employed with respect to the change to the definition of "Engagement Team" ([www.ifac.org/sites/default/files/publications/files/IESBA-Code-of-Ethics-Engagement-Team-ED\\_0.pdf](http://www.ifac.org/sites/default/files/publications/files/IESBA-Code-of-Ethics-Engagement-Team-ED_0.pdf)).

### The Assessment of Process

It is the extent to which the manner for considering the action, decision, or policy was conducted with the qualities of transparency, public accountability, independence, adherence to due process, and participation that is inclusive of a wide range of groups within society.

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<sup>42</sup> [www.ifac.org/sites/default/files/publications/files/PPP3%20Standard%20Setting%20in%20the%20Public%20Interest.pdf](http://www.ifac.org/sites/default/files/publications/files/PPP3%20Standard%20Setting%20in%20the%20Public%20Interest.pdf)

*The Public Interest Oversight Board (PIOB)* - three independent standard-setting boards supported by IFAC<sup>43</sup> and IFAC's Compliance Program<sup>44</sup> are under the oversight of the PIOB, which was established in 2005 as an integral part of a set of governance reforms. The PIOB reinforces the adherence to democratic principles in the work of IFAC and the Public Interest Activity Committees (PIACs).<sup>45</sup> Governance arrangements for the standard-setting boards, as well as the nominating process for appointments to the PIACs, are under the oversight of the PIOB, which observes all meetings of relevant boards and committees, monitors due process, and provides consultation when necessary.<sup>46</sup> Furthermore, in addition to standards being developed under a system of due process that contains oversight of the PIOB, input is received from each board's consultative advisory groups (CAGs).<sup>47</sup> In terms of proportionality, IFAC's Small and Medium Practices (SMP) Committee provides input to the IAASB's standard-setting process by submitting comment letters at all key stages of the development process, from project proposal to draft exposure draft (ED) and, often, after exposure.

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<sup>43</sup> The three standard-setting boards under oversight of the PIOB are the IAASB, the IAESB, and the IESBA.

<sup>44</sup> IFAC's Compliance Advisory Panel (CAP), is responsible for the Compliance Program and is under the oversight of the PIOB.

<sup>45</sup> The Public Interest Activity Committees include the IAASB, the IAESB, the IESBA, and the CAP.

<sup>46</sup> The public interest implications of IFAC's governance arrangements are explained in IFAC Policy Position Paper #3, *International Standard Setting in the Public Interest* (September 2011), which is available at <http://www.ifac.org/publications-resources/international-standard-setting-public-interest-0>.

<sup>47</sup> The CAGs consist of external public sector and private sector institutions that provide the standard-setting boards with technical advice and input regarding agendas.



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