

International Federation of Accountants (IFAC)  
Exposure Draft

IFAC Policy Position Paper #4  
A Public Interest Framework for the Accountancy Profession

# **response to exposure draft**

24 March 2011

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

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Dear Eli Khazzam

**Exposure Draft IFAC Policy Position Paper #4**  
**A Public Interest Framework for the Accountancy Profession**

CIPFA is pleased to present its comments on the matters discussed in this Exposure Draft, which have been reviewed by our Accounting and Auditing Standards Panel and other panels which consider public interest issues in CIPFA.

**General Points**

In principle, CIPFA welcomes the initiative which IFAC has taken in considering the nature of the public interest as it affects the accountancy profession. It is crucially important that regulators and other stakeholders can see that the profession, while naturally promoting the interests of its own members, also has due regard for the wider public interest.

Having said this, CIPFA is concerned that the scope of the 'public interest' as discussed in the draft paper is unclear. In some cases the draft paper suggests that it is providing a wide definition of public interest. In other cases the definition in the draft paper is narrower, concentrating on the contribution of accountants. While we agree that there should be a narrower focus, the paper seems to confuse the narrower and wider aspects, and the draft paper is correspondingly less understandable.

The scope of the public interest goes much wider than the benefits or other effects of any one profession, and is relevant to activities which are not mainly driven by financial reporting, audit or other accountancy matters which are within the principal expertise of IFAC. It might therefore be quite difficult for IFAC to comment on the wider aspects of the public interest, and obtaining consensus on a definition which would work in all cases might also be extremely difficult.

In our view it would be more helpful if this IFAC Policy Paper were to

- acknowledge that 'the public interest' is a broad concept, which goes beyond the contribution of any one profession, and which encompasses issues relating to economic, social and environmental matters
- note that accountants contribute to the wider public interest, but that their principal contribution is perhaps their contribution to economic activity, through a combination of efficient resource management, transparent, useful and reliable reporting, ethical behaviour and effective governance.
- explain that the Policy Paper is not primarily seeking to comment on wider public interest issues, but is focussing on those areas where IFAC activities may affect the contribution of accountants to public well-being. The ED might for example concentrate on the value which IFAC and its independent standard setting boards can and should bring to society. Additional guidance could be provided on how IFAC

member organisations might be expected to operate, and how the Code of Ethics and other guidance and standards serve to embed the public interest in the actions of individual members of IFAC member organisations.

### **Overemphasis in relation to auditors and capital markets**

Although we suggest that the paper might have a clear and relatively narrow focus, the focus should not be too narrow. Reading through the paper we had some concerns that the drafting was mainly addressing the needs of auditors and of capital markets, and that other aspects of accountancy were added as an afterthought. Although the Policy Paper does mention professional accountants in business, these do not figure substantially in the discussion. Again, while the Policy Paper does mention the public sector, this seems to be mainly as part of the regulatory environment.

We have some concerns that the term 'public interest' is being implicitly defined in terms of those matters which are considered by the Public Interest Oversight Board or progressed by IFAC's Public Interest Accountable Committees. Taking this approach would exclude, for example, the International Public Standards Accounting Standards Board (IPSASB) which is subject to other governance arrangements, and also the activities of other IFAC committees such as Professional Accountants In Business (PAIB). Such exclusions would be inappropriate - there is a need to have regard to the public interest as it applies to IFAC as a whole, and this is reinforced, for example, in the terms of reference for IFAC boards and committees, including the Terms of Reference for the IPSASB.

### **Detailed Comments on drafting and content**

CIPFA comments on the drafting and content of the draft Policy Paper are attached in an Annex.

I hope this is a helpful contribution to the development of IFAC guidance in this area.

Yours sincerely

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## 1. Definition of the public interest

The introduction (p4) explains that

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

Later on p5 the paper asserts that

*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.*

While CIPFA agrees that 'common benefit provided by the accountancy profession' is an appropriate thing for IFAC to consider, in our view this is a much narrower and specialised concept than the 'public interest'. The definition excludes public interest discussions relating to e.g. the general rule of law, freedom of the press etc, and in our view would not be recognised as a definition of the public interest by most members of the public.

We would also suggest that it would be difficult to develop and form a consensus on the wider public interest. From a practical point of view it would be better to allude to the wider concept, but to focus on matters which are relevant to accountants acting, as accountants, in the public interest.

## 2. Definition of 'the public'

For example on p5

*The "public" includes the widest possible scope of society: individuals and groups of all jurisdictions sharing an international marketplace for goods and services.*

and

*It also includes electors and taxpayers, who as citizens of local, regional, and national jurisdictions, are affected by the fiscal decisions of their respective governments for public expenditures and the distribution of public resources.*

We believe that it is the intention of the draft Policy Paper that the definition of 'the public' is inclusive and widely drawn. However, the above definitions, while seeking to set out broad membership, might be read as restricting the definition.

The first of these might be seen as excluding for example, persons in jurisdictions which are not part of an international marketplace. The second, which is intended to bring in stakeholders who do not necessarily use financial information, might be seen as excluding persons who are not electors or taxpayers.

### 3. Definition of 'interests'

On p6 the discussion of interests includes the following:

*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 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. However, we extend our definition of "interests" to describe more specifically the responsibilities that professional accountants have to society.*

The underlined portion is not 'extending' the definition of interests, but is appropriately focusing on those aspects which are relevant to an IFAC consideration of the public interest.

### 4. Incomplete listing of standard setting boards

On p9 the following is set out:

*IFAC's three standard-setting boards and its Compliance Program are under the independent oversight of the PIOB, which was established in 2005 as an integral part of a set of governance reforms*

This is included in a discussion of PIOB, but seems to inaccurately represent the 3 boards subject to PIOB oversight as a comprehensive list of IFAC's standard setting boards.

The International Public Sector Accounting Standards Board (IPSASB) is another IFAC standard setting board. The governance and oversight arrangements for this board are different and are currently under discussion, but will certainly need to be designed to serve the public interest.