



AMERICAN ACCOUNTING ASSOCIATION ETHICS SYMPOSIUM, 5 AUGUST 2012

Acting in the Public Interest: What does it mean to you?

Summary notes from panel discussion

The panel, chaired by Robert Hodgkinson, Executive Director Technical at ICAEW, comprised:

- Kenneth Chatelain, Partner, Oversight Policy and Compliance, PricewaterhouseCoopers
- Jay Hanson, Board Member, Public Company Accounting Oversight Board
- Lisa Lindsley, Director of Capital Strategies, American Federation of State, County & Municipal Employees
- John Thornton, Professor, Leung Chair of Accounting Ethics, Azusa Pacific University and President Elect, Public Interest Section, American Accounting Association

The panel was part of the [American Accounting Association Ethics Symposium](#) which precedes the [AAA annual meeting](#) each year. ICAEW has arranged panels at both the ethics symposium and the annual meeting in the past, as part of an on-going programme of engagement with academics to help align theory and practice. As part of its thought-leadership work a report entitled [Acting in the public interest: a framework for analysis](#) has just been published. ICAEW has references to the public interest in its founding charters and takes a great interest in the matter.

Following a brief introduction, each panel member followed with a short set of comments setting personal perspectives of what the public interest means to them in their roles. A lively questions and comments section followed. Time constraints meant that the observations were necessarily high level but a number of the points covered raised interesting issues for further consideration. These included perspectives on what the public interest means, roles in serving the public interest and problems arising with maintaining a public interest focus. The key matters discussed included:

What serving the public interest means

The ICAEW report did not seek to determine a detailed definition as the use of the public interest term is too context specific. However, as a general point it can be argued that a public interest action will usually involve forgoing personal benefit to benefit a greater group. That said, from a professional perspective, the public interest and self-interest are arguably the same interest in the long term as good reputation feeds off the former but is in the interests of the latter.

It was agreed that as public interest matters should be of interest to the public, transparency is generally a good thing from a public interest perspective.

It was also proposed that the truth would be a good starting point for any consideration of what is in the public interest.

Roles of auditors and other professional accountants

Serving and being seen to serve the public interest is in the interest of the profession as there is major scepticism about what accounts really mean.

In particular a financial statement audit has to be a public interest role. The purpose of an audit is to give confidence, so the auditor needs to think about what the investor needs, over and above what management needs. There was some argument advanced after Enron that audit was less relevant but the reforms went the other way: reinforcing audit with stronger regulation. That regulation improved the profession though it did not always seem so at the time.

Other aspects of audits and auditors' work are relevant. There is a view that being paid by the organisation they are auditing mitigates against the public interest, though the existence of audit committees to oversee the relationship helps the issue and should make who pays less relevant. In a similar vein, there have been attempts to change the credit rating agency model by breaking the link between payment and those they report on, but this has not been taken forward, at least in the US.

It was noted that 60% of CPAs are in industry and involved in, for example, preparing financial statements. The issue of how they act in the public interest, while not working in professional organisations, is critical as what they do is pertinent to the community at large.

Companies and investors

Legally, private sector companies exist to serve their shareholders, not the public interest. Indeed, Friedman thought shareholder interests should predominate in companies but it is not that simple. There is a strong school of thought that they should adopt a wider public interest perspective in view of their wider role in society. For example, it was said that some years ago the Wal-Mart auditor sold the company some low tax strategies and recommended they hide them. In the long term, does that non-public interest action really benefit the company (or the auditor)?

Just as it is argued that companies should take a wider perspective, so there is an argument that investors should also take a wider perspective of company actions, for example on transfer pricing, tax aggressiveness, and lowering of investor protection as a result of the Jobs Act.

Investors' interests are not the same as the public's interest, but at least when considering audit issues, the interests of investors are a good starting point. Jim Gaa has noted in the past that investors are at a disadvantage over preparers in terms of information availability and thus merit primacy.

Problems in applying a public interest focus

Adopting a public interest perspective is easier in a regulatory or policy role than for those carrying out day-to-day work such as audits, accounts preparation, etc. Internal pressures within the financial system mitigate against focusing on and acting in the public interest.

The issue of pressures to act against the public interest applies outside the financial system too. For example, the 'Citizens United' Supreme Court decision of 2010, effectively allowing unrestricted political contributions from, eg, corporations, means elected officials could now be under pressure to be accountable to them rather than the public.

Then there are issues with what the public wants. Different sections of the public want different things. An argument was advanced that this means that there is no such thing as **the** public interest.

People also move from one section into another: for example people who are now partners in a professional firm will become retired investors in due course. The public also tends to have a schizophrenic view of its wants. For example, where a large supermarket moves into a small town, threatening to kill local businesses, people object, but everyone goes there to take advantage of the lower prices. What is the public interest there?

As noted previously, the public interest frequently involves taking a long term perspective, but the long term tends to be heavily discounted in people's considerations.

Standards

It was suggested that one could define acting in the public interest for auditors (and others) as acting in accordance with expected standards. That is a good starting point but with the intention of reflecting reality, standards often allow a range of answers. In practice, in applying that range, people tend to be worried more about being sued than what is right. In addition, the accounting sometimes has to be made to fit the standards, and it becomes complicated to work out what is actually 'right'. An example is operating leases, where a standard based on percentages has inevitably resulted in leases engineered to fit the letter of the treatment required, rather than necessarily the spirit.

It was suggested that financial reporting standards have not reflected the economic substance of banks' financial transactions, research suggesting that preparers were not comfortable with the standards. Flawed accounting standards inevitably result in flawed accounts. The profession has kept quiet about this. It was noted that 'present fairly' is not always the same as 'present fairly in accordance with accounting standards'. An example was given of a hi-tech business only showing part of the full story as regards intangibles.

Specifically considering auditing standards, the audit reporting model is binary at the moment. Having something with more grading would better reflect reality and be more useful.

The comments made do not necessarily reflect the views of the individual panellists or the organisations they work for.