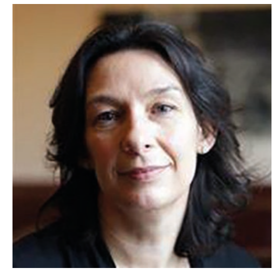
BY
Dr. Bríd Murphy and Ann Marie Bennett

Accounting for Public Interest

What is Public Interest? Who are the stakeholders? And what key factors should we consider in answering these questions? Research carried out by Dr. Bríd Murphy and Ann Marie Bennett presents some interesting findings on how the career specialisations of CPAs may influence their answers.



Dr. Bríd Murphy

Ann Marie Bennett

In recent years, there has been much criticism of the accounting profession as a result of high profile cases such as Anglo-Irish Bank, Clerys, RSA Ireland and Apple. This has been reinforced by regulatory, political and media commentary which suggests that the profession's duty to protect and promote the public interest has not always been realised. The public interest has been defined as 'the collective well-being of the community of people and institutions the profession serves', yet, there is little consensus on what the 'public interest' duty means or how to achieve it. There is however general agreement that the promotion of public interest must encompass consideration of stakeholders. Stakeholders include individuals or groups who may have an interest in or be affected by the profession and its agents. Stakeholder theory extends roles and responsibilities beyond profit maximization to include interests and claims of other groups. Prior research has shown that, in practice, where limited time and resources are available, decisions may only respond to the most pressing demands of one or two influential stakeholder groups, effectively ignoring requests from other groups.

▶ Continued on Page 4

▶ Continued from Page 3

Guidance in respect of public interest responsibilities is provided to accounting professionals within professional body codes of ethics. A code of ethics should embody the values and standards of an organisation and effectively acts as a constitution, with general principles to guide behaviour and affect decision-making. It is therefore a key document to assist in relation to ethical and public interest dilemmas. However, in practice, the application of these responsibilities is not always clear-cut. In professional practice, contractual obligations are to serve clients. Practitioners thereby depend on clients for their ultimate economic survival and prior studies suggest that practitioners perceive this as their primary duty, to the extent that economic interests are prioritised over public interest. Accountants operating outside of professional practice must also balance competing interests and serve in-house 'clients', including the board of directors and employees, in addition to maintaining effective relationships with regulatory and government authorities and the professional body with whom they are affiliated. As a result, accounting professionals' consideration of public interest may be complex.

In 2015, the accounting profession was criticised by the Financial Reporting Council (FRC) for 'a lack of clarity in how accountants should discharge these [public interest] responsibilities'. In addressing FRC criticism, the accounting profession in the UK did not attempt to define public interest, but focused instead on adopting a stakeholder approach, emphasising the need to take account of legitimate stakeholder interests and guiding how these interests should be addressed. A study was conducted within the Irish accounting profession to examine the perspectives and approaches of individual accountants in Ireland in relation to public interest. The study focused on the Institute of Certified Public Accountants in Ireland – hereafter CPA Ireland. CPA Ireland's code of ethics stresses:

A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a member's responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest, a member shall observe and comply with the ethical requirements of this Code.

An online survey was undertaken and 286 CPA Ireland members participated in this survey. The key questions addressed are as follows:

- How aware are CPA accountants of their public interest duty?
- What stakeholders are of primary importance?
- What key factors are perceived as relevant when considering public interest?
- What support systems are useful when faced with public interest dilemmas?

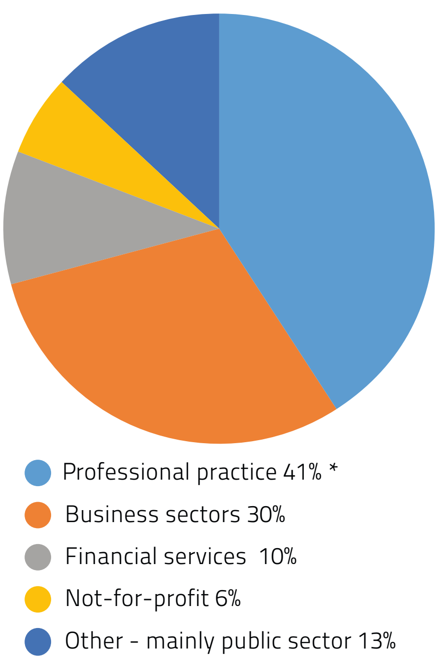
This study provides an understanding of CPA Ireland members' appreciation of public interest responsibilities and how these are guided by the professional body. Key findings are presented below.

Key Findings

Respondent profiles

The gender breakdown is 53% male, 47% female. The majority of respondents have significant experience, with 70% qualified ten years or more and only 12% qualified less than five years. Respondent profiles are highlighted in Figure 1 below:

Figure 1: Respondent profiles



*evenly split between audit, advisory, tax and non-audit accounting.

Awareness of the public interest requirement

Almost half of all respondents report that they have encountered public interest issues and 10% have completed written assessment of these issues. The highest incidence of public interest dilemmas is reported by those in financial services and in professional practice, predominantly in advisory and tax. Survey responses illustrate mixed results with regard to whether the profession has been damaged by failure to protect the public interest. On one side of the pendulum, 25% of respondents believe that the profession's reputation has been significantly damaged by failures to protect public interest, while on the other side, 33% do not consider that there has been any significant reputational damage. Several respondents suggest that larger accounting firms are responsible for reputational damage caused to the profession in recent years as these have more potential to impact such issues:

Working in small to medium practice, the opportunity to effect public opinion or be engaged on public interest businesses or entities is very limited. Generally large practices and in-house accountants in public interest entities have the opportunity to effect public opinion.

Key factors impacting public interest

In all work areas, 'compliance with legislation' is viewed as the most important factor for consideration in relation to public interest. Health and safety ranks as the second most important factor, with reputation of the profession following closely behind. For most work areas, aggressive tax avoidance is ranked as the least important factor when assessing public interest. Respondents working in tax and audit however view it as a more important issue, and rank it fourth overall. Tax professionals, as designers of tax avoidance schemes, need to appreciate where the ethical line should be drawn. Similarly, auditors need to be able to ensure that tax schemes stand up to public scrutiny. It is not surprising therefore, that these two specialisms are more aware of the public interest dimension of aggressive tax avoidance. Figure 2 summarises respondents' ranking in relation to factors impacting public interest:

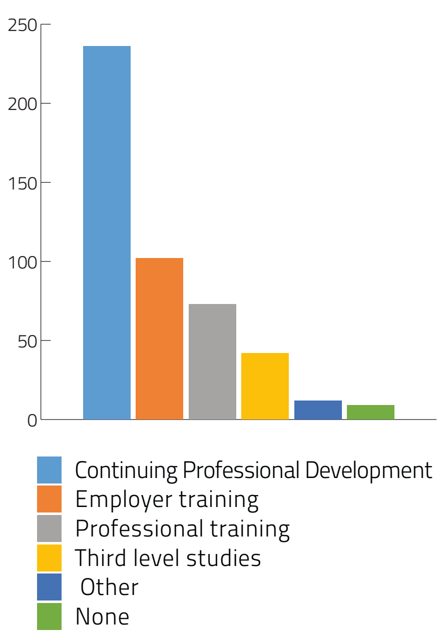
Figure 2: Key factors impacting public interest

Compliance with legislation	1
Effect of health and safety of community	2
Reputation of profession	3
Loss of jobs	4
Effect on welfare of public	5
Loss to exchequer	6
Aggressive tax avoidance	7

Ethics training and education

Ethics training and education helps to ensure that members are aware of their public interest duties and maintain high standards of conduct. The survey examines levels of participation in ethics training and education. The majority of respondents report some form of ethics training/education, with a 3% minority stating that they had received none. CPD stands out as the main means of ethics training for members, with over 85% of respondents having engaged in some form. Only 26% of respondents indicate that they engaged in ethics training/education during professional training. Employers have provided ethics training to a little over a third of survey respondents, with employers in financial services and the public sector being the most proactive in this regard. Figure 3 summarises respondents' participation in ethics training/education:

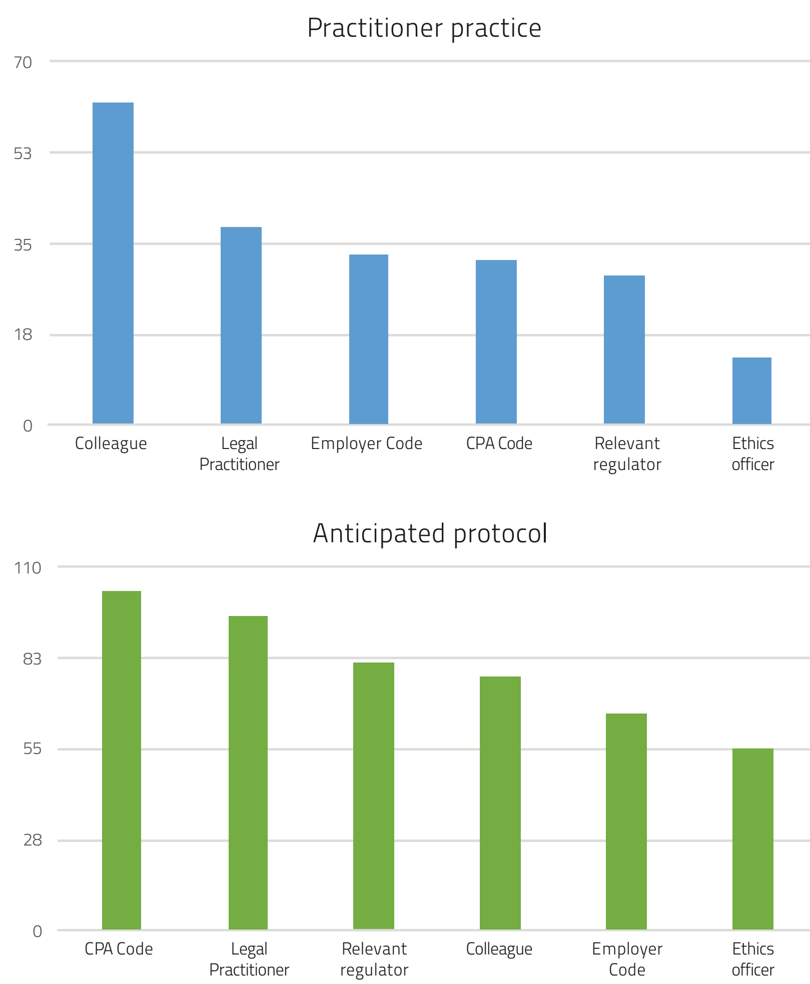
Figure 3: Ethics training and education



Support systems

Respondents report a disparity between theory and practice when faced with a public interest dilemma. While the majority of respondents state that they would initially consult the CPA Ireland code of ethics, in practice their main support mechanism is to seek advice from colleagues. The findings suggest that, in practice, the likelihood of members seeking advice from the professional body code is relatively low. This provides an interesting contrast in terms of established practice versus anticipated protocol. Surprisingly, ethics officers are not a key support in addressing ethical issues, ranking lowest in both cases. Respondent rankings in relation to support systems are highlighted in Figure 4 below:

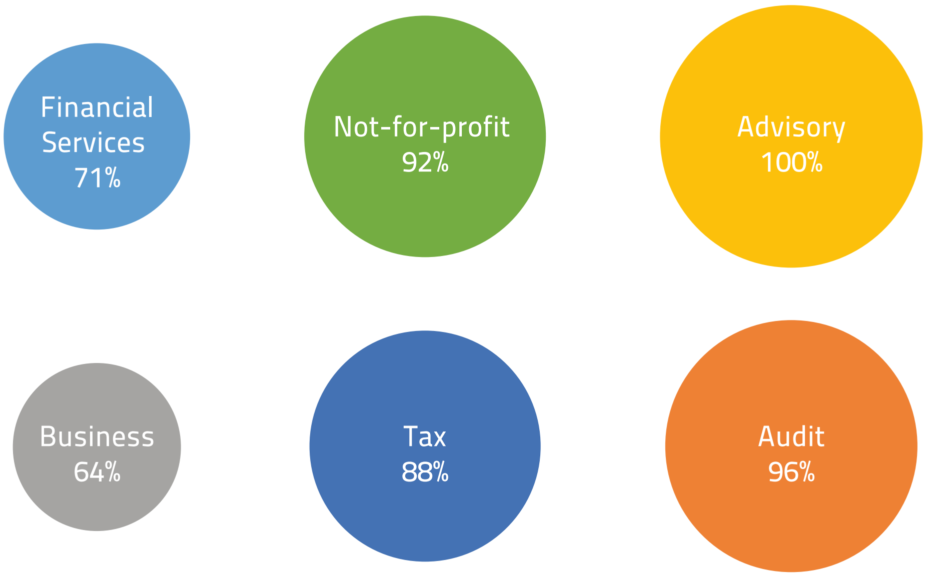
Figure 4: Support systems – practitioner practice versus anticipated protocol



▶ Continued from Page 5

Familiarity with the Code of ethics

While 82% of respondents have read the CPA Ireland code of ethics results vary between career specialisms. Respondents in practice report high levels of familiarity while those in the business sector and financial services are significantly less familiar, as represented below:



57% of those surveyed believe that CPA Ireland provides effective guidance in dealing with public interest issues, with 5% stating that the guidance is ineffective and the remainder 'don't know'.

Stakeholders

The survey examined the importance afforded to various groups in light of increased emphasis by the profession on the need to consider wider stakeholders. Notably, 86% of respondents perceive clients as the most important stakeholders, with employees ranking a very close second, as indicated by Figure 5:

Figure 5: Stakeholder ranking

Clients	1
Employees	2
Revenue Commissioners	3
Regulators	4
Investors	5
Accounting Firm	6
Accounting Profession	7
General Public	8
Government	9

However, respondents in business and not-for-profit sectors indicate that employees are the most salient stakeholders. Government and the general public are suggested as the least important stakeholders by all respondents. These stakeholders have the least economic relevance in terms of economic survival and as prior research suggests, the focus appears to prioritise economic interests and stakeholders that have direct commercial impact.

Conclusions

It is incumbent on the accounting profession to ensure members appreciate their public interest responsibilities. While there has been notable focus on this within CPA Ireland, the concept of 'public interest' remains vague and undefined, and may mean different things to different members. To address this, the accounting profession in Ireland could set out further guidance clarifying public interest responsibilities. In addition, the communication of guidance to members is essential. Currently these responsibilities are communicated through the professional body's code of ethics and within ethics training/education. While the majority of accountants are familiar with the code and have undertaken ethics training/education, more work is necessary to heighten awareness, particularly within initial professional training. This formative period is the foundation of members' professional careers and an important opportunity for CPA Ireland to advance ethics education.

The study also highlights the significant reliance that accounting professionals place on expertise within their professional networks in relation to dealing with issues in the workplace, where they can access and share different ways of dealing with issues encountered. Professional accounting bodies such as CPA Ireland could further support the establishment of network structures for its members. In conclusion, while the accounting profession acknowledges its public interest responsibilities, the promotion of these responsibilities requires on-going attention. The application of public interest is difficult to prescribe; however regular up-dating of codes of ethics coupled with continued efforts to increase awareness through training, education and professional networks can enhance the accounting profession's promotion of its public interest duty.