

## “To serve the Public Interest”, the main characteristic of Accounting Profession

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**Abstract:** Public interest is highly important to the accounting profession because, according to the profession’s code of ethics, “a label of the accountancy profession is its acceptance of the responsibility to act in the public interest”(IFAC, 2012), but there is not a common consensus on what exactly is the public interest. In this circumstance, the objective of the paper is create a conceptual framework of the public interest by taking into consideration the approaches of international and national literature and the international, european and national accounting profession representatives. The paper approach is qualitative, and for this, a literature review was conducted with the aim of analyzing the main studies in accounting research literature and the most significant points of view of accounting profession representatives. Our paper contribution is to underline some new elements, part of the accounting profession framework of public interest "to provide policymakers, regulators, and business leaders with the means to more consistently assess many of the issues which are currently in debates at the national and international levels."(IFAC, 2012)

**Keywords:** public interest, ethics, accounting, accounting profession

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### 1 Introduction

At the beginning of the 1930s, the concept of accounting was still mainly obscure and unfamiliar to the public. In 1970, the notion of accounting gains publicity, but still does not have an impact on human interaction and relations. In spite of this, nowadays, accounting and the accounting profession have an essential part in estimating and regulating production or exchange processes; moreover, accounting is also vital in serving the public interest (Willmott, 1990).

Moreover, in the late 1970s in the U.S., the leadership of the accounting and auditing profession, and the large audit firms in particular, became increasingly focused on the commercial aspects of their business in terms of growth and global expansion. There are oft-expressed concerns that these “business values” displaced “professional values” such as auditor independence and serving the public interest (Zeff, 1995).

*By certifying the public reports that collectively depict a corporation’s financial status, the independent auditor assumes a public responsibility transcending any employment relationship with the client. The independent public accountant performing this special function owes ultimate allegiance to the corporation's creditors and stockholders, as well as to the investing public. This "public watchdog" function demands that the accountant*

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*maintain total independence from the client at all times and requires complete fidelity to the public trust.*

*-Chief Justice Warren Burger, writing on behalf of a unanimous United States Supreme Court in the case of United States v. Arthur Young & Co. (1984)*

According with the International Federation of Accountants Committee (IFAC, 2012) Code of ethics, “a label of the accountancy profession is its acceptance of the responsibility to act in the public interest”.

In the last years, the accounting field and, implicitly, the accounting profession has gone through a series of significant changes. These alterations have occurred due to excessive media coverage of famous international financial scandals such as Enron, WorldCom, Parmalat and Lehman Brothers, which have all contributed to the plunge in the accounting profession credibility in the public's eyes. The aforementioned changes have led to a significant increase of complexity in accounting-related activities, which, also triggered by a chain of legislative modifications, all led to an inefficiently controlled activity and conflicts of interest.

The nature of the activities carried out by accountants and auditors requires a high level of professional ethics. The ethics includes values and the human condition from the perspective of moral principles and their involvement in social life, all the rules of suitable moral conduct.

The aim of this paper is to contribute to the development and more consistent understanding of this complex notion. In this circumstance, the objective of the paper is to explain the concept of public interest by taking into consideration the approaches of international and national literature and the international, European and national accounting profession representatives. The paper approach is theoretical, and for this, a literature review was conducted with the aim of analyzing the main studies in accounting research literature and the most significant points of view of accounting profession representatives.

The remains of the paper is structured in the follows parts: the second one introduce the main research issues about the public interest issue extracted from the international literature review, the third section contents some reflections about accounting professionals responsibility on public interest, and in the last part are the conclusions.

## **2 Echoes about ethics, public interest and accounting profession in the international literature**

Ethics refers to principles which define fair, appropriate and correct behaviours. Ethic principles do not always dictate a course of action, but offers means of evaluation and decision between alternatives. Shareholders, investors and other users of financial reports trust these accounting produced financial and non-financial documents because of the information they contain; that information is needed for making decisions regarding their investments (Alexander & Britton, 2004). Knowledge in ethics can aid an accounting professional in overcoming ethical dilemmas, by making the right choices, not necessarily with regards for the

well-being of the company, but more for the publics' benefit, who relies on the professional conduct of accountants and auditors (Duska & Duska, 2003).

Even in the Romanian literature, a series of authors have been preoccupied with ethical problems in the accounting profession. Studies analyse aspects regarding competence, confidentiality and professional conduct, in accordance with the ethical code of accounting professionals (Moraru, 2007) and also ethical principles applied in audit missions by financial auditors (Mihăilescu, 2007). Lazăr (2008) examines the relation between professionalism and ethics in the accounting profession, whilst ethical dilemmas are exposed by Badea (2008). Popescu et al (2009) accomplish a study with regards to accounting professional ethics in the context of the global financial crisis, in which they identify the gaps in business ethics and the existing markets pressures. The authors also promote the idea of a "ethics and conformity chief" of the entity and they define a monitoring system for quality and ethics in audit companies.

The notion of public interest is abstract; it refers to the society as a whole, seeing all its members together and not each of them individually (Tiron-Tudor, 2013). Public interest is defined in various ways, in the international literature.

Literature in the accounting field conveys certain clarifications regarding the understanding of the public interest notion, above what is stated in ethical codes. Generally, conceptual delimitations in specialised literature evoke the ethical code, thus a series of authors like Calhoun et al (1999), Henderson & Pierson (2000) and Henderson & Henderson (2001) define this concept as defined in the ethical code. Hanlon (1994) considers that the pursuance of personal interests had led to a crisis in the accounting profession; this was done by a strong emphasis on the commercial side of offered services, and by accomplishing performance indicators related to turnover, results and profit, to the detriment of the public interest. In addition to this statement, Lee (1995) examines the accounting profession in the UK and in the US and finds a conflict between the personal and economic interest and also the obligation to serve the public interest.

In order to deepen and define the concept of public interest, Baker (2005) conducted a conceptual study based on the analysis of the mission statements of reputable bodies in the American accounting profession field, which act in the public interest: American Institute of Certified Public Accountants (AICPA), Financial Accounting Standards Board (FASB) and PricewaterhouseCoopers (PWC). The results show that the relationship between the values and activities of the accounting profession and the public interest they must serve is severed. O'Regan (2007) studies how the accounting profession in Ireland serves the public interest. The results have confirmed the necessity of a specialised body to coordinate the activity of the accounting profession, as a whole, in order to achieve the objectives in its activity.

A topic developed in the literature in a direct linkage with public interest is the conflict of interest and possible solutions (Coffee 2004; Davis and Stark 2001;). . Conflicts of interest occur when individuals' professional responsibilities diverge from their personal interests (or when different professional responsibilities clash)(Cain, et al, 2005)

Also, the Sarbanes-Oxley Act issued by U.S. Congress in 2002 limits the ability of accounting firms to provide both auditing and consulting services to the same client.

Professional accountants can work in various areas such as accounting, taxation, management accounting, internal audit, external audit, consultancy, financial planning and others; in each and any of these areas, ethical problems can arise (Armstrong, 2002). The accounting profession is self-regulated through various professional bodies; these bodies have the internal means to implement and impose ethical codes.

### **3 International, European and national accounting profession representatives' approaches**

#### **3.1. International regulations on public interest**

On an international level, the body that has concentrated most active on professional ethics is IFAC – International Federation of Accountants. Specifically, IFAC has directed its attention towards: ethics in education and the coherency of ethical codes for the various professional bodies which operate in diverse geographical locations. Integrity, expertise and transparency are only a few of the values reflected in the IFAC Code of Ethics for professional accountants, while the codes of professional conduct of accountants shape the guidelines for an ethical behaviour in the accounting profession. For accountants, as in any other profession, the codes are the most concrete cultural mean through which a profession acknowledges its responsibilities and duties towards the society (Abbott, 1983).

Internationally speaking, actual requirements for accountants in terms of integrity, objectivity, professional prudence, confidentiality and professional conduct, have been established by IFAC in its July 2008 project regarding ethics for professional accountants (IFAC, 2012).

The public interest is defined as the collective “welfare of people and institutions, in which the profession serves to protect the economic interests of related (third) parties, by supplying relevant and trust-worthy data, from an economic point of view, data which facilitates the decision-making process towards economically efficient and effective choices” (IFAC, 2012).

In order to protect the public interest, IFAC has developed a series of standards for different sectors, such as: International Standards on Auditing, Assurance Engagements and Related Services; International Standards on Quality Control; International Code of Ethics for Professional Accountants; International Education Standards; International Public Sector Accounting Standards.

In November 2010, IFAC, with the intention of clarifying the concept of public interest, has released, for public debate, a document entitled “A Public Interest Framework for the Accountancy Profession”, intended to assist IFAC member organizations to better evaluate if they actually serve the public interest through their actions and their institutions. The initiative has been extremely useful, judging by its results. The objectives of the document focused on the construction of profession public policies, a better defined benchmark for new regulations, the

development of professional standards and the assessment of public interest aspects.

Ardelean (2013) analyzed the comments issued and found out that the complexity of the public interest notion makes it difficult to define, given its international reach and pointed out the relevant aspects regarding the axiom of public interest, arguing that the commitment to society is the highest responsibility of the profession.

In this context, for defining the meaning of “public interest”, IFAC relies on a conceptual framework defined by three criteria:

- 1) Seeing costs and benefits for the society, regarding as a whole,
- 2) Adherence to democratic principles and processes;
- 3) Respect for cultural and ethical diversity.

The IFAC code of ethics establish the standards for accounting professionals behavior and display the fundamental principles they should respect in order to fulfill their common objectives. IFAC’s code of ethics generally adopts a principles based approach and the five fundamental principles in the IFAC code are: integrity; objectivity; professional competence and due care; confidentiality; and professional behavior.

Other international organisations involved in this domain are Public Interest Oversight Board (PIOB). Loft et al (2006) reveals a growing reliance on governance by experts together with a growth in influence of the large, multinational accounting firms. Governance of auditors has become a matter of global importance and governance structures are being reconfigured.

### **3.2 European regulations on public interest**

In Europe, the bodies that are concerned with public interest issues include: the European Commission, the European Union Council and the European Parliament. The European Commission’s mission is to promote the general interest of the European Union and in order to fulfil this mission; the Commission participated in the decision-making process by presenting proposals for European legislation, and also by providing supervision in the process of correct implementation of EU treaties and European law.

The European Union Council, as a main decision body of the European Union, examined the legislative proposals of the European Commission and adopts them, with or without alterations. The European Parliaments actively participates in this process with: regulations, directives, decisions, recommendations and opinions.

Among developed European Union legislation on accounting profession and ethical aspects of the accounting profession, are the following:

- Green Paper: Audit Policy: Lessons from the Crisis and [Green Paper - The Role, the Position and the Liability of Statutory Auditors within the European Union](#)

Humphrey et al (2011) consider important issues raised in the Green Paper include regulatory oversight, competition in the audit market, the dangers of having very few firms with the capacity to audit global transnational corporations, professional judgment, innovative audit practices and, last but not least, social responsibility.

- 8th Directive on Statutory Audits Statutory Audit Directive: Statutory Audit Directive
- Directive 2006/43/EC on statutory audits of annual accounts and consolidated

Member States in the European Union are required to establish audit committees for all public-interest entities, according to the EU 8th Directive on Company Law.

At European level there were significant developments in the area belonging to the Federation of European Accountants (FEE -Fédération des Experts comptables Européens). In September 2009, FEE released a discussion paper on integrity in professional ethics, emphasizing the importance of this particular principle. The discussion paper underlines that in taking into account the public interest, the professional accountant's responsibility is not exclusively to satisfy the needs of individual clients or employers. This is critical because of the need to align the performance of the profession with society's reasonable expectations (FEE,2009).

They continue in 2011 with a press release stating that personal and professional integrity is the first and foremost ethical principle for behavior in business (FEE, 2011).

### **3.3 National regulations on public interest**

At a national level, in the accounting profession, the rules of professional conducts applicable to members are those set by professional bodies such as the Chamber of Expert and Licensed Accountants of Romania (CECCAR) and the Chamber of Financial Auditors of Romania (CAFR), which can be summarized as following (the National Code of Ethics for Professional Accountants, 2013):

- a) Integrity – to be straightforward and honest in all professional and business relationships.
- b) Objectivity – to not allow bias, conflict of interest or undue influence of others to override professional or business judgments.
- c) Professional Competence and Due Care–to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.
- d) Confidentiality–to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.

- e) Professional Behavior – to comply with relevant laws and regulations and avoid any action that discredits the profession

The circumstances in which professional accountant operate may allow the emergence of certain threats to the compliance with the fundamental principles. The code provides a general framework that can assist the accountant in identifying, assessing and overcoming these threats in accordance with the fundamental principles. If these acknowledged threats are other than clearly insignificant, a professional accountant should, when appropriate, apply safety measures to eliminate them or reduce them to an acceptable level, so that the conformity with fundamental principles remains intact.

#### **4 Some reflections about accounting professionals responsibility on public interest**

The members of the accounting profession provide services not in their own interest, but for the public welfare, mainly to meet the trust needs of the public interest; more often, accountants are faced with situations that involve professional conflicts; a complete list of susceptible situations likely to generate conflicts of interest, but professionals need to discover the factors that can cause such conflicts.

The professions' responsibility must include the protection of certain public interests, such as:

- A solid financial reporting process;
- The comparability of financial information coming from different states;
- Fiscal prudence in spending public funds and money;
- The improvement of performance in organisations.

Moreover, there are some particular circumstances where the responsibility of the professional accountant can be in conflict with some internal and external requirements:

- A superior, director, administrator or associate can exert pressure. Any relationship or interest that is susceptible of endangering or negatively influencing the integrity of the professional accountant, must be discouraged;
- The professional accounting may be asked to work against professional and technical standards;
- A conflict of interest may occur even when publishing erroneous information, that could benefit the employer or client, and favour or disfavour a professional accountant.

The beneficiaries of an audit mission consider that auditors should assume extended responsibilities, not just the examination and certification of compliance of the financial statement, but also the obligation to protect the interest of the audit mission beneficiaries; they achieve this by detecting and reporting audit fraud and irregularities (Nelson *et al.*, 1988; Sikka *et al.*, 1992). Thus, there is a gap between

the auditor profession and the public perception regarding an auditors' responsibilities (Tidewell & Abrams, 1996).

International Audit Standards (ISAs) have contributed to guide auditors in identifying irregularities in financial statements and have enabled auditors in providing reasonable assurance in this regard (Munter & Ratcliffe, 1998). However, following financial scandals which implicated auditors, the professional status and credibility have had to suffer; the public's trust was affected and auditors were accused of violating this trust (Chan and Leung, 2006).

## 5 Conclusions

The accounting profession has a vital role in society. The public for it consists of customers, creditors, the government, employers and employees, investors, the business community, and others who rely on the objectivity and integrity of accountants to maintain the proper operation of the economy. This trust requires the profession public accountability for its action. The behaviour and attitude of professional accountants in providing these services has an impact on economic welfare of the entities in which they work, but also of the community and the country.

In recent years, a number of factors, starting from the collapse of entities in which the context of profession independence was called into question, and extending to a variety of political pressures arising from globalisation and international financial markets, have all created an environment in which intense implication from regulatory bodies has been seen as critical to assure the protection of public interest.

In the present context we can say that, in fact, the financial crisis that has started in 2007 is a massive failure of the struggle between public and private interests, to the detriment of the latter, in the pursuit of gaining quick speculative profits.

Each member of the accounting profession is required to operate in this line of work so that he contributes towards increasing confidence in the profession and towards fulfilling the profession responsibilities to the society. A true professional accountant is someone who is not only reporting, but someone who can also influence management decisions; in recent years. The interest in accounting ethics has recorded an increase.

A proper need in the accounting profession is the proper implementation of the ethical code of the professional accountant, for moving beyond simplistic "right or wrong"-type of legislation. Accountants need advanced tools to fulfill their obligation to society (Bean & Bernardi, 2007).

Auditors must comply with the specific standards adopted in each jurisdiction, familiarity with IFAC's International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants (IESBA Code) in addition to national accounting profession organisations Code of Professional Conduct. When specifications differ, members should comply with the more restrictive of the applicable standards.



By Public Interest Framework, and by other actions, efforts of professional bodies, in particular those of the IFAC, to restore the level of confidence in the accounting profession and for strengthening its responsibility to the public interest have, in the end, paid off. (Tiron-Tudor, 2013) The result can be seen in the revision of professional standards in order to increase clarity, and also the review and revision of the Code of Ethics in July 2009 and in 2011. The revisions clarified the requirements for all professional accountants and significantly strengthened the independence requirements.

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