

Information Paper

The Roles and Domain of the Professional Accountant in Business

Published by the Professional Accountants in Business Committee



International Federation
of Accountants

Professional Accountants in Business Committee
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

The mission of the International Federation of Accountants (IFAC) is to serve the public interest, strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession's expertise is most relevant.

This publication was prepared by IFAC's Professional Accountants in Business (PAIB) Committee. The PAIB Committee serves IFAC member bodies and the more than one million professional accountants worldwide who work in commerce, industry, the public sector, education, and the not-for-profit sector. Its aim is to enhance the role of professional accountants in business by encouraging and facilitating the global development and exchange of knowledge and best practices.

This publication may be downloaded free-of-charge from the IFAC website <http://www.ifac.org>. The approved text is published in the English language.

Copyright © November 2005 by the International Federation of Accountants (IFAC). All rights reserved. Permission is granted to make copies of this work provided that such copies are for use in academic classrooms or for personal use and are not sold or disseminated and provided further that each copy bears the following credit line: "Copyright © by the International Federation of Accountants. All rights reserved. Used by permission." Otherwise, written permission from IFAC is required to reproduce, store or transmit this document, except as permitted by law. Contact permissions@ifac.org.

Foreword

The Professional Accountants in Business (PAIB) Committee of the International Federation of Accountants (IFAC) has developed this paper on The Roles and Domain of the Professional Accountant in Business to provide an understanding of the roles and responsibilities that these positions occupy in business.

Over one half of the 2.5 million professional accountants who are members of the member bodies of IFAC work in business, many of them in roles which are critical to the success of the enterprise. While there is a high awareness and appreciation of the role and importance of accountants in audit practice and tax preparation, there is a less understood, but equally important need for professional accountants to design and maintain mechanisms to assure that effective, ethical and responsible corporate governance and control is achieved.

The roles that Professional Accountants in Business perform include implementing and maintaining operational and fiduciary controls, providing analytical support for strategic planning and decision making, ensuring that effective risk management processes are in place, and assisting management in setting the tone for ethical practices.

The bottom line is that the performance of the Professional Accountant in Business is critical to the reputation and the credibility of the business firm, its management and the accountancy profession.

My thanks to the project team, all of whom are involved with the PAIB Committee either as a member or technical assistant, who crafted this paper. This group consisted of:

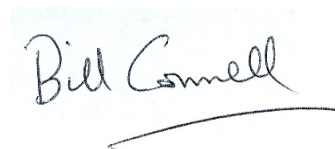
William L. Brower CMA, CFM, Vice President, Finance, Johnson & Johnson,
Medical Devices and Diagnostics Group and Chair-Elect, Institute of
Management Accountants

Christopher Jackson, Head of Faculty and Finance and Management, Institute of
Chartered Accountants in England and Wales

Richard Mallett, Director Technical Development, Chartered Institute of
Management Accountants

John Morrow, Vice President, American Institute of Certified Public Accountants ,
The New Finance

Bill Connell

A handwritten signature in black ink that reads "Bill Connell". The signature is written in a cursive style and is underlined with a single horizontal stroke.

Chairman, IFAC PAIB Committee

THE ROLES AND DOMAIN OF THE PROFESSIONAL ACCOUNTANT IN BUSINESS

Introduction

The purpose of this paper is to define the term Professional Accountant in Business and to provide an understanding of the roles and responsibilities that professionals in these positions occupy in business. A President of IFAC has stated that “It has never been a better time to be an accountant! Our profession is recognized as contributing to every sector and aspect of the global economy. We are not solely auditors. We are management accountants, business leaders, corporate financiers, business advisers.”

A Professional Accountant in Business is someone that first meets the standards of a professional, defined as:

- Having skills, knowledge and expertise tested by examination and continuously developed in a structured and monitored context
- Committed to the values of accuracy, honesty, integrity, objectivity, transparency and reliability
- Subject to oversight by a body with disciplinary powers

This is similar to other professionals that achieve accreditation through exam, and maintain expertise via a commitment to on going continuing education.

Second, is recognized as being an accountant, defined as:

- Belonging to a recognised accountancy body upholding professional standards and approaches in the discipline of recording, analysing, measuring, reporting, forecasting and giving advice in support of financial, management and strategic decisions.

And third, is in business, defined as:

- Working in an organizational entity of any size and ownership structure, or alone, whether or not operating for profit, other than engaged in external audit
- An integral member of, or support to, the management team striving to create and sustain value for stakeholders

The Roles of the Professional Accountant in Business

Over one half of the 2.5 million professional accountants who are members of the member bodies of the International Federation of Accountants work in business. This includes those who work in commerce, industry, the public sector, education and the not-for-profit sector. Their work, experience and responsibilities are extraordinarily varied and the diagram in Figure 1 has been developed to demonstrate the breadth of roles that professional accountants in business are performing today.



Figure 1

Typical mainstream job titles include chief financial officer (CFO), finance director, financial controller, financial analyst, treasurer, chief information officer, investor relations officer, planning manager, strategy analyst, chief accountant, management accountant, cost accountant, financial accountant, consolidation accountant, internal auditor, compliance officer, project manager, and program manager. Many PAIBs also move on to have more general management responsibilities such as operations director, chief executive officer (CEO), chairman, non-executive director.

The Domain of the Professional Accountant in Business

The main activities, which are sometimes referred to collectively as ‘management accounting’ or ‘financial management’, can be analysed as:

- The generation or creation of value through the effective use of resources (financial and otherwise) through the understanding of the drivers of stakeholder value (which may include shareholders, customers, employees, suppliers, communities, and government) and organizational innovation
- The provision, analysis and interpretation of information to management for formulation of strategy, planning, decision making and control
- Performance measurement and communication to stakeholders, including the financial recording of transactions and subsequent reporting to stakeholders typically under national or international Generally Accepted Accounting Principles (GAAP)
- Cost determination and financial control, through the use of cost accounting techniques, budgeting and forecasting
- The reduction of waste in resources used in business processes through the use of process analysis and cost management
- Risk management and business assurance

These activities are carried out in different modes including directing, influencing, evaluating and informing. Many of the activities are forward looking in nature and have to deal with ambiguity.

The principles of Enterprise Governance require an appropriate balance to be set between corporate governance and compliance on the one hand and business performance and value creation on the other. The PAIB plays a key role in both these dimensions and in optimising the balance between the two.

In performing the above activities, the PAIB draws from a broad base of capabilities, including a deep understanding of the principles of corporate finance, economics, and accounting. A successful PAIB will deploy various analytical techniques including strategic analysis, competitor review, benchmarking, ratio analysis, statistics and risk assessment. The PAIB has to respect a number of fundamental principles of management accounting such as the incremental impact of decisions, opportunity cost and sunk cost.

The PAIB needs to be pragmatic and able to exercise rational, disciplined, objective analysis and judgement to often ambiguous and imperfect information. The PAIB needs to combine a challenging and questioning approach with a high degree of understanding of the business, its market and competitive environment. It is essential that the integrity and ethics of the professional accountant be beyond reproach so that management can rely on their reports, findings, and recommendations.

THE ROLES AND DOMAIN OF THE PROFESSIONAL ACCOUNTANT IN BUSINESS

To make a difference to an organization's success the PAIB needs to communicate effectively. Innovative presentation skills have become essential in order to present analysis and recommendations in such a way as to influence decisions.

The activities of the PAIB continue to evolve to reflect the increasing sophistication of techniques and system tools available; the environment within which a business operates; and the need for a business to address its competitive situation.

Standards and guidance

Those areas directly in the public interest have standards which are formulated through a rigorous due process. Additionally, there are well-established oversight mechanisms to encourage compliance with these standards. The key relevant standards are those covering professional ethics, continuing professional development and external reporting. The first two have international standards set by IFAC which are, in turn, adopted by its member bodies and the latter is carried out in accordance with national and, increasingly, international GAAP.

The PAIB is accountable to the organization that employs them subject to behaving within the law and the codes referred to above. A professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer but also the public interest. The public interest is served first and foremost by the creation of sustainable value. In acting in the public interest a professional accountant should observe and comply with the IFAC Code of Ethics for Professional Accountants. The fundamental principles set out in the Code are integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.

The operating milieu of the PAIB is otherwise not constrained by rules and standards. Other than the standards referred to above, the IFAC PAIB Committee looks only to publish "principles-based good practice guidance" so distinguishing it from the regulatory and compliance connotations of the term "standard".

The purpose of principles-based good practice guidance is to encourage effective and efficient decision-making and the adoption of tools and techniques that can be applied intelligently within different types of organizations. Principles-based good practice guidance focuses on performance by addressing the value-creating processes and procedures that support robust business outcomes and successful organizations.

Lastly, and importantly, for regulatory and compliance mechanisms to be most effective, ethical and responsible corporate governance and control must reside within the organization. The roles that PAIBs perform in implementing and maintaining operational and fiduciary controls, providing analytical support for planning and decision making, ensuring that effective risk management processes are in place, and in setting the tone for ethical practices are critical to the reputation and the credibility of the organization, its management and the accountancy profession.

THE ROLES AND DOMAIN OF THE PROFESSIONAL
ACCOUNTANT IN BUSINESS

Further reading (all available for free download from www.ifac.org)

IFAC Code of Ethics for Professional Accountants (June 2005)

Enterprise Governance – Getting the Balance Right (February 2004)

International Education Standard 7, Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence (May 2004)

PAIB Committee Study 12 – Competency Profiles for Management Accounting Practice and Practitioners (January 2002)

PAIB Committee Theme Booklet – The Diverse Roles of the Professional Accountant in Business (November 2004)

PAIB Committee Theme Booklet – The Role of the Chief Financial Officer in 2010 (January 2002)



International Federation of Accountants

545 Fifth Avenue, 14th Floor, New York, NY 10017 USA

Tel +1 (212) 286-9344 Fax +1(212) 286-9570 www.ifac.org