ACCOUNTANTS FOR BUSINESS

Overview

ACCA's theme for 2009-10 is 'Accountants for business'. One of the hallmarks of sustainable enterprise is a strong finance function. Organisations, whether in public or private sectors, benefit strongly from the discipline that comes with financial management, and the embedding of financial awareness within the organisation from the most senior, board level, down to the most junior employees. In these organisations, financial management is not seen as an imposition. It is part of the culture of the organisation. Employees understand the importance of finance to the short term, but also to the long-term strategic aims of the enterprise. Finance does not dominate thinking but it is woven into the threads of corporate activity.

The accountancy profession has long embraced the value of accountants in business. The International Federation of Accountants, for example, has a committee dedicated to the needs of professional accountants in business, established in 1977. ACCA itself has long embraced the need for financial discipline as a cornerstone of the corporate sector – and with some 60% of its members working in the corporate sector, there is a significant mandate from the membership to promote the importance of accountants working in wide-ranging sectors.

However, in introducing its theme, ACCA wishes to emphasise a new, value-adding agenda for accountants in whatever roles they are employed, and promote the role of accountants as promoters of sound business practices, champions of sustainable business development and identifiers of value drivers which lead to high-performing organisations. ACCA is not a lone voice in promoting this theme. It is at the heart, for example, of the agenda for the World Congress of Accountants in Kuala Lumpur in 2010.

In choosing this theme, ACCA wishes to set out an agenda for business which puts sound financial management at its heart. It wishes to highlight new ways in which accountants can position themselves at the heart of business life.

- *Accountants and the economy:* accountants add considerable value to business by driving down costs and identifying drivers of value and profitability – and never more so than in the current environment. They are instrumental in obtaining access to finance and strengthening the balance sheet. The professional judgement of the accountant, and the drive of the profession to ensure ethical practices are adopted throughout the business, are vital to corporates as they steer their way through difficult trading conditions, while seeking to keep their eye firmly on their longer-term goals.

- *Accountants in the golden age*: accountancy is arguably emerging into a golden age – and not just because financial skills are needed in a time of difficult economic conditions. Recent surveys by ACCA show that demand remains high for accounting skills around the world, in developed and developing nations. International standards in finance have been called for at the highest levels in society, not least by the G20 nations. The CFO has become more important in recent years as a guardian of financial performance and a key player in creating long-term value. It is no accident that professional accountants are found on the boards of listed companies around the world. And the outward-facing role of CFOs has broadened. It is no longer just the shareholders who are seeking to understand and analyse company performance. Wider stakeholder groups are now scrutinising the broader supply chain, ethical business practices and the company's corporate social responsibility and environmental record. The CFO is increasingly the guardian of the brand, ensuring that the company adheres to good sustainable practices. Accountants are no longer just reporting to the shareholders and to comply with regulation. They must play their part in maintaining and building the reputation of the company.

- *Accountants and small business*: accountants are essential to supporting the small business sector, estimated by the OECD to represent 95% of all enterprises. SMEs make a positive contribution to economic growth, requiring well-rounded finance managers and advisers to ensure small businesses survive and grow. ACCA creates the 'complete finance professional', with the skills required for financial reporting, management accounting, compliance with tax and other regimes, risk management and performance analysis, grounded in professional and ethical practices and with the knowledge appropriate to provide well-rounded advice to company owners and managers.

- *Accountants in large corporates:* a new agenda is emerging for the accountant in the large company. With risk management now identified as an increasingly important discipline within companies, the accountant's skills are well placed to identify and analyse the company's risk profile and to provide an essential link to financial performance. The complete finance professional will be striving to ensure that there is consistency of approaches to management accounting and financial reporting so that what is being measured and analysed within the company with respect to corporate targets and objectives is consistent with what is reported to external stakeholders. In short, accountants act in the interests of business by measuring and reporting on the right thing. A further imperative has emerged for the accountant in the large organisation: effective delivery of the finance function, using technology and efficient means of delivery, including outsourcing as a potential integral part of the solution, with an added-value in-house function focusing on analysis, risk and the overall integrity of financial performance. The accountant in the large multinational will also be interested in non-financial reporting and the triple bottom line, aiming to encompass a broader perspective in accounting to stakeholders through a broad-based operating and financial review or management analysis.

Why 'Accountants for Business'?

The profession of accounting segments itself primarily into three areas – accountants in the public sector; accountants in public practice; accountants in business. ACCA has 10% of its members in the public sector; 30% in public practice; and the majority, 60% in business. A significant number are in a consulting or advisory role.

With a clear majority of members and employers working and existing outside public practice there is an urgent need for ACCA to address this wide, diverse constituency. Markets clearly recognise the accountant in business and the value they create and manage in the organisations that employ them.

This paper considers some of the many roles of accountants for business and how those roles are changing as we enter a 'Golden Age' for the finance professional.

Accountants, small and medium-sized enterprises (SMEs), and the business life cycle

In the private sector, business life begins with an idea of a gap in the market, the need for a product or service which does not currently exist, and the enthusiasm to build a value proposition around that first green shoot. In those first days, the accounting function is either in the head of the entrepreneur, or in a member of the family, or friend, or the local accountant. The business succeeds, orders flow in, cash is generated. In short order, the entrepreneur is required to make decisions on a range of issues covering such matters as whether to incorporate, whether to rent premises, whether to invest in capital equipment, getting to understand health and safety issues, getting to grips with tax matters.

The business will grow, the entrepreneur will thrive, and time will become increasingly poor. But the basic discipline of 'keeping the books' will prove essential. Is there sufficient cash in the bank, are enough orders coming through? Are customers paying bills when they should? Are suppliers getting pushy on paying of bills? A minimum set of books – a diary – will be required from the very start of business life – a cash book, a list or ledger of suppliers and customers, an order book.

At the 12 month point, or the point where the entrepreneur first decides to strike a balance, the first set of accounts will be prepared. These are a record of how the business has performed over the period, how its cash flows have been generated and utilised, the state of its assets and liabilities at the balance sheet date together with certain information about the trade carried on. In most jurisdictions these accounts are used for three main purposes:

- to settle liabilities owed to or owed by the tax authorities

- to demonstrate to the entrepreneur how the business has performed and to enable him or her to decide on how profits should be paid to the tax authorities, taken as a reward for him or herself, and other funders, kept as reserves for the future

- to satisfy the compliance regime of the jurisdiction in which the company exists.

In most locations the choice to operate as a company with limited liability is not the only one. It is possible to function as a sole trader, or in partnership with joint and several liability, or in specially formed consortia to carry out specific projects. But incorporation allows the special opportunity to limit liability of the entrepreneur to his or her capital contribution to the business venture. And over the last quarter century the numbers of those who have chosen to incorporate in economies around the world have increased dramatically. This is an interesting and important socio-economic trend, for it is in the small business sector, the SME, where the greatest opportunities for job creation arise and where innovation flourishes.

Many businesses are lifestyle choices. As such they will constantly seek to maintain the size of the business in line with a specific number of staff, or to a target turnover determined by the number of orders they are willing to take on. Yet others will grow. Growth may be driven by external funding requirements or the ambition of the entrepreneur. Growth may be organic, i.e. by internal expansion and the generation of new business; or it may be fuelled by acquisition and merger in order to penetrate new markets and new sectors. A handful of corporates will reach the listed markets. And in time all businesses mature. A significant minority will die along the way, ceasing to be going concerns. Others will be sold on.

In all this dynamic the accountant has a key role to play. Many studies of the small and medium-sized enterprise (SME) sector demonstrate that the accountant is a trusted and cherished source of advice, and that this has been the case for at least the last two decades. And while this trusting relationship has held remarkably consistently for the long term, the same cannot be said for the bank manager. Here, studies show a progressive erosion of trust. So, it is important for the accountant to understand the dynamics of the relationship, and the need for its active management.

Accountants may enter the life cycle of businesses at various points in time and at various levels of engagement.

ACCOUNTANTS IN BUSINESS

Management accounting

All businesses in all jurisdictions have *external* compliance regimes. Far more important to their stewardship and prosperity over time is the production of *internal* management accounts. While key values from the management accounts – profit and loss, cash surplus or deficit, specific assets and liabilities – can be reconciled to the statutory accounts, the importance of management accounting is to help the business, and its users of financial information, understand how it has performed historically and where its future lies.

Management accounting, that is to say, reflects the more specific and diverse drivers of the business in its competitive environment. Management accounts are there to aid current and future decision making. Their users are many and varied, as set out in examples below.

- *The individual budget holder* in a project focused organisation will need granular data recording the transactions attributable to his her project, or portfolio of projects. Such data will include, time records of hours booked to projects, suppliers invoices coded to projects, customers invoices raised and paid or outstanding. Information may be provided as charts of data, but will be more readily understood as graphical output. At this level of usage, the accounting year end is of secondary importance. Their need for accurate, up to date cost and income reports means daily updating of accounting records.

- Above the individual budget manager, *line managers* will be responsible for a range of different projects of differing duration. Whereas the individual project manager is concerned solely with the profit or loss on his/her specific project, the line manager will be working to annual financial operating plans and will therefore have a direct interest in profits or losses accumulated over the accounting period. Their focus will be less frequent than the individual project manager, probably expecting a monthly suite of management accounting reports.

- Above the line manager, is the *board of directors*, and the finance director or chief finance officer in particular. The focus of the board is certainly to do with ensuring that the organisation is a going concern, that it will be in existence for the foreseeable future – but also the board has a strategic view, over a longer term. Their financial reporting requirements will be by exception and at a higher level. However the finance director needs to be able to focus down in sharp detail in areas vital to viability, such as cash flow. Other non core performance data will be important such as trends in head count or in the order book.

- And there are *other stakeholders* interested in the management accounts of the enterprise, for example employees, suppliers, customers, banks and other funders, and the tax authorities.

Statutory accounting

Statutory accounts or financial statements in certain jurisdictions are those documents which an organisation has to prepare to comply with legislation. For that small fraction of large, listed companies such statements must be produced according to International Financial Reporting Standards (IFRS). For the majority of companies accounts are prepared according to Generally Accepted Accounting Principles. Domestic legislation will also prescribe other forms of enterprise such as sole traders, charities and partnerships. In the public sector accounts take the form of General Purpose Financial Statements (GPFS). Accounts in this sector are produced either on a cash flow basis, or increasingly, an accruals basis. In some jurisdictions accounts in the public sector comply with IFRS – this is the case in the UK. Elsewhere they may be produced in accordance with standards set by the International Public Sector Accounting Standards Board (IPSASB).

For smaller organisations accounts will be prepared externally by firms of chartered certified accountants using 'books of prime entry' which record the day to day transactions of the business. These accounts are then filed in a central register and are often available for public inspection. There are statutory timetables and meeting requirements to approve and publish the statements.

At the heart of any finance function are the essential transaction processing activities – sales and credit control; purchases and bought ledger control; payroll and pensions; bookkeeping and reconciliations. Certain businesses have outsourced or off-shored certain of these functions; however, the pace of such activity has not been as rapid or as extensive as predicted. Perhaps this is because the benefits have never been as clear as are claimed and isolated scandals such as Satyam, the software house in India, demonstrate the risks to key corporate functions where they are passed on to a third party supplier.

The accountant for business, whether an employee of the organisation, or a firm contracted to provide bookkeeping and accounts preparation service, provides a vital financial disciplinary function in ensuring the business is financially sound and sustainable.

Tax matters

Tax matters are normally considered in terms of corporate, personal/payroll and sales. While public sector entities are often exempt or outside certain taxes, this is not always the case. For example, in the UK, one driver of change for local authorities is the effect of the Landfill Directives. These are aimed at reducing waste going to landfill and this is targeted by increasing the tax on landfill per tonne, year on year.

In addition to the preparation and filing of accounts, the accountant for business has a vital role to play in ensuring tax compliance. From within the business the accountant may have the skills to produce tax computations, to plan for Group tax and double taxation reliefs, as well as developing the capabilities to deal with specialist areas of tax e.g. R&D Tax Credit regimes, Capital Allowances regimes and other enterprise incentive schemes. The value that the accountant for business creates or destroys in this area is considerable and directly demonstrable. For example:

- a lack of clarity on whether withholding tax applies or does not apply when working internationally may be avoided by the accountant ensuring a tax exclusive clause is included in the commercial proposal – this may save considerable taxes, penalties and fines

- proper written documentation of intra company agreements about goods and services provided across jurisdictions will save significant sums as a result of transfer pricing investigations. It is important to value tax advice on the basis of its long time horizon. In many jurisdictions investigations can occur several years into the future and authorities may have draconian powers to investigate retrospectively

- a face to face meeting of the accountant with the tax inspector will yield satisfactory results, provide negotiations are conducted in a professional manner, both parties are seeking a fair outcome, and good documentation exists. In these circumstances the meeting will have a positive result, leading to a stronger, trusting working relationship for the future.

An important balance is to be struck between tax compliance, planning and advice being provided in-house via the finance function, or externally via a tax practitioner. This will depend on the complexity of the advice required, and the familiarity with the jurisdiction.

Treasury and the banks

At the heart of any business, and particularly in the current straitened times, good cashflow management is the lifeblood of the organisation. All well-run business will know that it is not sufficient to measure profitability – profits without cash generation will fail in the long run.

But in an era where interest rates are at historic lows, where is surplus cash to be invested? And where organisations operate internationally, what protection can be sought against losses on foreign exchange?

All well-run organisations will have their finger on the pulse of cashflow, measuring cash resources at least on a weekly basis – daily for near cash businesses such as retailers – and plotting this against robust stress tested cash flow forecasts. Financial reconciliations will be up to date and outstanding items will be cleared. There will be a clear, written treasury policy which specifies items such as currencies in which surplus cash will be held, the amount of working capital maintained in satellite offices, and tight credit control procedures over debt.

This discipline then drives the relationship between the organisation and its bankers – perhaps one of the most important and valuable in corporate life, and vital to the realisation of its strategic goals. Here the value created and managed in the fostering of this relationship is immense.

Building and sustaining the finance function

One of the key decisions for the business owner is whether to recruit an accountant for the business and thereby start the process of establishing the finance function as an autonomous cost centre, rather than a purchased in resource.

As soon as that process is underway it becomes the responsibility of the accountant for business to begin to build the team that will deliver financial success. The finance function may encompass all or some of the following skills and knowledge:

- statutory accounting
- management accounting
- management information systems development
- project accounting
- tax planning and compliance
- transaction processing – bookkeeping, purchases, sales, payroll and pensions
- asset management
- supply chain management
- corporate social responsibility
- risk management
- internal audit
- treasury
- training and coaching.

The finance function is, in one sense, another business overhead. As such it will be constantly challenged in terms of the value for money it offers to the organisation – and this is only right. The fitness for purpose of the function should be tested by the board via regular, annual reviews. The leadership of the function should also be benchmarking, where possible, either against the functions of direct competitors, or, where not possible, against best practice in the economy.

For those working in the function it will soon become important to establish career paths and other routes for personal development, as well as finding ways to ensure those in finance are aligned and in tune with organisational strategy. Succession plans will need to be established for key roles in the function.

The accountant in the boardroom

The finance director (FD) or chief financial officer (CFO) occupies a pivotal role on the main board. In many organisations the FD/CFO is identified as the second most important role in the organisation after the chief executive. Consequently the FD-CEO relationship is vital to the success of the organisation. On the board the FD will typically have key relationships with the HR and IT directors, in particular. However the FD's pivotal role in terms of access to financial and other data, and the fact that most corporate activities have financial implications, increases the strategic importance of the role to organisational survival and growth.

In the current economic climate it is clear that corporate governance principles need to be radically re-assessed. A decade of growth, and of the elevating of the CEO above other board members, is coming to an end. Board remuneration needs to be rethought. The role and feasibility of non executive directors needs rethinking. Questions are being asked about whether Audit and Remuneration Committees have done what they were supposed to do. In all of this, the role and prestige of the finance director has – to date – come through undiminished in importance, if not positively enhanced. We believe the CFO role has come of age and if the CFO is prepared to lead, the board will welcome him or her as a significant leader in the organisation. It is a great time for the accountant in business.

As a member of the board, the FD also creates and manages value by his or her involvement in the more strategic functions of the organisation. On the one hand bolstered by a strong finance function, and the ability to drill down to all parts of the organisation, the FD is a custodian of financial performance; on the other hand the FD will be expected to be an active participant in risk management, in scenario planning and stress testing, in enhancing and shaping the business model. The FD will be the author of the organisation's investment appraisal methodology. The FD will understand and recommend the distribution of profits, as dividends to shareholders, as transfers to reserves, as tax payments to the authorities. In these various roles he or she operates at the heart of the organisation.

Other key relationships for the accountant in business

The accountant in business has a pivotal relationship with other key stakeholders essential for the ongoing success of the organisation. Some examples are below.

- For quoted companies, the presentation of financial statements in a timely fashion and professionally prepared in compliance with IFRS, is absolutely essential. Although investors or their agents rarely read the statements (preferring instead to see summarised investment packs) the very existence of these statements enhances confidence and thereby adds value.

- The relationship between the accountant in business and the external auditor is one that requires careful management. The auditor's trust in the finance function is a key to an effective audit. The auditor needs to know that controls and reconciliations are in place, and being acted on. They need to be sure of the ethical standing and integrity of the function. Delivery to time of accurate statements and schedules, and a willingness to locate information as and when it is required, all contribute to efficiency in the conduct of the audit, as well as constructive advice in the auditor's management letter.

- The accountant in business is often a key point of contact with major customers and suppliers in the supply chain. The right balance between disclosure of how the finance function operates – how costs are arrived at, and prices determined – as against the need for commercial confidentiality, engenders trust, and a willingness to deal with the organisation on a fair basis.

- The accountant in business can often be a motivator for those many employees in the organisation who are not financially minded, but who yet are charged with a financial or budgetary responsibility. Understanding the motivations of others, demonstrating in practical terms why finance matters to them can be a source of huge value to the organisation, in terms of controlling cost, and of optimising income.

Conclusion: accountants in a golden age

We are in a 'golden age' in terms of the relevance of accountants to business. Over the last 18 months, as a systemic banking collapse has evolved into a significant worldwide recession, a range of presumptions about accounting, organisations and society have been radically called into question. Organisations previously considered to be well managed have been rocked to their foundations. Corporate governance, regulation, asset pricing, risk management, remuneration design are all subject to root and branch examination. The Balanced Score Card, so beloved of the business studies schools, is now seriously unbalanced. What organisations need now is the iron hand of discipline over the immediate short term, but in addition the confidence of knowing they possess a business model which is sustainable. From this corporate carnage, CFOs have every opportunity to emerge as leader and saviour – it will depend on their willingness to rise to the challenge.

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