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Professional Accountants in Business Committee  
International Federation of Accountants  
Submitted electronically

Dear Stathis

**Competent and Versatile: How Professional Accountants in Business Drive sustainable organisational success**

ICAEW welcomes the opportunity to comment on the consultation paper *Competent and Versatile: How Professional Accountants in Business Drive sustainable organisational success* published by IFAC in September 2010.

ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 134,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance with over 775,000 members worldwide.

**Question 1. Does the paper fairly and usefully represent the diverse roles and domain of the PAIB?**

The paper does fairly and usefully represent the diverse roles and domain of professional accountants in business. Specific comments from reviewers were:

The framework seems reasonable, and indeed is a fair reflection of the challenges facing an accountant in business. The content was reasonably laid out and repeatedly went over the drivers of sustainable organizations.

There should also be a recognition of the need for accountants to educate colleagues and not only to communicate effectively the results but also to support the recipients of the information in fully understanding what is being presented. The professional accountant in business therefore should seek to improve the financial literacy of the people in the business. This is part talent management and part communication. There are instances of boards not understanding some financial information that has been put in front of them and then blaming the accountant for lack of communication. So building financial literacy and having an educational slant to their work is important, not only for the survival of the business, but also for the reputation of the accountant.

The document talks about long term sustainability. This implies the existence of short term sustainability. There is a difference between sustainability and resilience, ie the ability to withstand shocks to the system. The definition of sustainability is becoming stretched and confuses sustainability and resilience. Having a resilient business means the ability to cope with changing circumstances and an underlying resilience within the business to be able to do this. The debate is not just whether the

business model is sustainable in its present form, it is more whether the underlying resources of the business have a resilience to cope with the unexpected.

The document says all the right things. But the document's purpose lacks focus by having two distinct audiences ie increasing awareness and assisting member bodies. At times it reads like a PR document telling the world how important, skilled, ethical, etc, accountants are. But it is a rather long document for that purpose. At the start of section 2 (p13) it talks about what the global profession needs to do, then it talks about what organisations need to do, then the latter parts of the document seem to be setting out the skills and hence training needs of accountants.

Figure 1 talks about: plan, do, check, and act. Do and act mean the same thing to some readers. These four words do not seem to be an integral nor necessary part of the document.

### **Question 2. What additional tools could IFAC develop**

The comments above suggest that the objectives could be more effectively achieved by having separate documents for each audience.

### **Question 3. Do you agree with the drivers?**

While we recognise the selected drivers as one approach, we recognise the existence of alternative drivers and we recommend the overt recognition that a choice has been made.

Many of the drivers of sustainable organisations listed could be questioned. The classic 'guru' texts would list some other factors. But perhaps more importantly no one has clearly identified the drivers of organisational success. Deloitte's 2009 report A random search for excellence lists 13 books on success factors of successful companies and finds none of them to be conclusive.

Another view in *What really works* by Joyce, Nohria, and Roberson is that the four fundamentals are 1) Clear and focused strategy 2) Flawless execution, 3) Performance based culture, 4) Fast and flat organisation plus two from a) make talent stay and develop more, b) make leaders committed to your business, c) make industry-transforming innovations, d) make growth happen with mergers and partnerships. Other possibilities include factors in *Built to Last*, *In Search of Excellence*, and *Alchemy of Growth*.

A concern is that while the paper claims that accountants should be rational and evidence based there is no evidence that the factors listed are those that lead to sustainable success. Perhaps this should at least be highlighted.

Some of the terms are not very helpful. For example 'effective' defines itself. There are others where the opposite is also true, for example some successful organisations are renowned for a lack of transparency.

Specific challenges to the elements in Figure 2 are:

- Customer and stakeholder focus - over alignment can lead to blind spots and rigidity. Some would argue the case for creative conflict and for the finance function to be different from other parts of the organisation to provide a counterbalance.
- Effective leadership and strategy - focusing on achieving long-term sustainable organizational success seems to be a truism.
- Effective leadership and strategy – it is doubtful whether values and culture can be 'implemented'.
- Financial management – there is no mention of the basics such as financial controls and cash management.

- Talent management – The meaning of enabling people and talent management as a strategic function is unclear.
- Transparent communication - how far does this go? It implies that PAIBs could have responsibility for communicating product information to help customer decision making. It could be argued that calls for increased transparency have been the cause of annual reports becoming too long and overly complex.

In summary, there are many possible lists of drivers of success which could have been selected and none can categorically claim to be right. This should be more overtly recognised and the source of the selected list given.

#### **Question 4. Would it be useful to develop an international competency framework?**

While we recognise the benefits of an international competency framework we draw attention to the risks associated with its development, which need to be managed.

There is a risk that an international competency framework potentially defines another post-qualification specialism and we are concerned that the mention of a possible competency framework could be interpreted by some as bringing new obligations on members in business.

Our experience shows that voluntary codes can develop into obligations and formal requirements even though this was never the original intention.

An issue raised above is the intention to achieve multiple objectives and it is unclear who the proposed competency framework would be for: member bodies or employers?

If the competency framework is for member bodies, it is difficult to see how it would not eventually become a requirement. Issuing a competency framework for the use of member bodies would lead us in two possible directions.

1. Developing assessments (if not learning programmes). The possession of a particular qualification in order to work as an accountant in business would (eventually) become an expectation.
2. Monitoring or regulating ongoing competence. It is difficult to see how this would be achieved in the business context.

If the competency framework is for employers, that is probably more appropriate, in that it assists employers in defining the desired skills and therefore has relevance for recruitment and training. However, two further questions then arise.

1. How do employers meet those needs? If they did so through professional bodies offering assessment then, again, it would define a market for particular training or assessment which could eventually become an expectation.
2. How in any case would this information be communicated by IFAC to employers, if not via accountancy firms?

We think the intention and audience of a competency framework needs to be reasoned through: how is it envisaged that it might be used in, say, five years' time?

We refer to some of the comments we made to IFAC in a consultation response on *IES 8*, in May this year. Of particular relevance are the comments on clarified objectives and the adoption of a principles-based approach; on classifying *IES 8* as a guidance document for firms; and on the importance of professionals recognising their own areas of competence and committing to working within them:

'Our overall comment is that the standard needs to be appropriate to apply to a very wide range of audit situations, and that there is therefore a risk of over-complication and misinterpretation. Other IESs relate to training in accountancy and are not so specific to particular roles or to types of work. There is a major risk of a revision to *IES 8* introducing an inappropriate licensing system with various competences relating to a wide range of different audit scenarios. Identifying the required competences for individual audit professionals would be extremely complex and the resulting restriction on firms would be unacceptable.

'Clarity of the objectives of the standard and the adoption of a principles-based approach is, in our view, the way to reduce this risk.

'We believe that *IES 8* should be reclassified as a guidance document for firms.

'We suggest that a revised standard should be clearer that individual auditors bear a personal responsibility through their ethical codes and CPD obligations to ensure that they have the required knowledge and skills to perform their duties. Professional accountants and auditors are already subject to a code of ethics which requires them to restrict their activities to those areas where they are competent, and this demonstrates the possibility that a principles-based approach is more appropriate.'

**In addition one reviewer provided some further detailed comments resulting from a critical reading of the paper:**

Some may not see organisations in the way the paper does ie in a mechanistic way. Viewing organisations as political arenas, cultures or complex systems would result in very different papers.

There is also a strong argument for suggesting that we should be supporting less painful organisational failure if we view economies from an evolutionary perspective rather than focusing on sustainable organisations. At the extreme some organisations are established for temporary purposes but because staff members want to keep their jobs they look for ways to sustain the organisation even though the original purpose has been achieved.

However, rather than completely re-analyse the approach, hopefully the following comments will add some value to what the paper is trying to achieve.

- Overall the document to some extent does give an appearance of trying to empire build for accountants in business. It is stated to be a promotional document in part but there is risk of over stretching the expectations. Areas such as non-financial measures, communicating with customers, looking for process weaknesses throughout the business may be better done by others even if supported by accountants.
- The document is too prescriptive in many places by using the word should.
- There is a sense that the document focuses on the roles in organisations which are already reasonably successful. The turnaround focused accountant in business does not really feature.
- The word cash is not mentioned once which seems a little strange in the current environment, although working capital is mentioned.
- Tax only seems to be mentioned in respect to planning and contributing to society. However, surely a key role actually played by professional accountants in business is tax minimization through tax avoidance.

- Overview, p6 para 1. To some readers, management accountant is quite a small subset of accountants in business and the title is now rarely used in many countries, although we recognise that others define the term as all encompassing. Using the term management accountant at this point may not be helpful if those with the narrow definition stop reading at that point.
- There is a potential conflict in arguing the role of accountants as both supporting sustainability and organisational strategy if an organisation has not bought into the sustainability agenda. Could this be interpreted as saying that an accountant, not pursuing broad sustainability in an organisation that is acting lawfully, is in some way incompetent or unethical?
- There is an emphasis on challenging conventional thinking; however this document in itself is an attempt to promote what is perhaps now conventional thinking.
- Page 10. We could be accused of empire building by simply including non-financial information without discussing the pros and cons of finance taking the lead.
- Page 11 - should controller designations eg from Germany be included?
- Page 11 – para 2 correctly states that the accountancy profession acts in the public interest but infers, without further explanation, that the individual accountant in business also acts in the public interest. How PAIBs act individually in the public interest and the rationale should be stated. Perhaps IFAC's public interest framework could be of use?

### Part three

- Could the statement that accountants will need a particular mindset and attitude be perceived by some as Orwellian? The idea that professional accountants can be characterized by a distinctive attitude, outlook, or way of thinking does not support diversity and will become its own conventional thinking. It also downplays the importance of team members and drawing on a range of mind sets.
- P15/16 There seems to be a paradox in prescribing an *instinctive focus* on financial performance at the same time as prescribing an *evidence based* approach. Additionally, financial performance seems much more limited than in the foregoing discussion.
- Page 16 – Professional judgement refers to challenging received wisdom when the document itself is trying to impose a wisdom. Facilitating the common and unifying perspective on an organisation's business model and key success factors may be interpreted as creating conventional wisdom and reducing challenge.
- Page 16 organizational awareness. Marketing, sales, production and service delivery are not mentioned, and it is questionable whether people is a discipline.
- Page 17 – Being comfortable...The application of rational, disciplined, objective and rigorous analysis is another example of conventional wisdom. Some argue for a balance of such approaches with the intuitive and emotional.
- Page 17 - The discussion of large versus small seems to be promotional rather than analytical. There are distinctions between roles in large and small businesses, in particular the absence of specialists in small businesses and the existence of the T shape in large business, but these facts are lost in the general commentary.

- Page 18 - The first sentence does not state whose expectations? Also it speaks in the present tense when perhaps this is looking to the future.
- Page 19 – Context. It is argued that technology allows greater decentralization but it could equally be argued that it allows greater centralisation and indeed it is unknown whether centralisation or decentralisation is more effective.
- Page 20 – Driver 2. Bullet 3. It is assumed that improved environmental and social performance will translate into enhanced business performance. The role of the PAIB is unclear where this is not the case.
- Page 20 – Context. It may be an overstatement that accountants should be involved in any area, eg strategy.
- Page 21 – Context. We assume redefining sustainable success so that it is relevant in the context of the organisation to mean finding other measures than profit. If this is so, it would be helpful to state this clearly although many organizations may not yet agree.
- Page 21 – Context. We assume going beyond traditional ways of thinking about economic success is making the same point as the one above.
- Page 22 - Integrated systems are proposed but may also lead to conventional wisdom. For example, the banks used value at risk models that were perceived to be best practice. Anecdotally one bank that was less affected by the recent crisis had poorly integrated risk management which meant that it was too slow in getting into toxic assets. Integrated systems could potentially give rise to one point of failure.
- Page 24 - Driver five bullet two – This is a specific example of a caution against the over use of the word strategic as an adjective.
- Page 24, driver 5. Is there sufficient focus on basic financial management such as cash and controls and more broadly the prevention of value destruction?
- Page 27 – Context para 2. This could be straying into some difficult cultural areas and is worded in a strange way ie it implies that the problem exists in countries away from head office. We are unaware of evidence that in countries where people are generally more deferential to authority that companies are less well managed or more unethical.

Please contact me should you wish to discuss any of the points raised in this response.

Yours sincerely

**Chris Jackson**

Head of Finance & Management Faculty

T +44 (0)20 7920 8525