



GLOBAL MANAGEMENT ACCOUNTING PRINCIPLES'

ICAEW welcomes the opportunity to comment on the *Consultation Draft Global Management Accounting Principles* available [here](#) published by AICPA and CIMA on 10 February 2014.

This response of 9 May 2014 has been prepared on behalf of ICAEW by the Finance and Management Faculty. The Faculty is recognised internationally as a source of expertise on financial management issues and for its monthly *Finance and Management* magazine. Members include CEOs, CFOs, Financial Controllers and a broad range of finance professionals in business. The Faculty is responsible for ICAEW policy on financial management issues including submissions to consultations.

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MAJOR POINTS

Introduction

1. AICPA/CIMA's *Consultation Draft Global Management Accounting Principles* (CDGMAP) attempt to cover a broad range of topics. These include business models, the definition of 'management accounting', the values of 'management accountants' and detailed management accounting practices, as well as the three high-level management accounting principles. However, the logical relationships between the topics are not always clear; the terminology used needs clarification and problems in the content need to be addressed.
2. Below we discuss the CDGMAP in the context of ICAEW's existing approach to finance activities and the finance function. In particular we argue that finance activities are broader than management accounting, the link between finance activities and the organisation needs to be further developed and greater emphasis needs to be placed on tailoring finance activities to circumstances. In addition the inherent tensions in finance activities, which are not covered in the report, need to be considered because these tensions are important to understanding why the skills and values of those undertaking finance activities are important. However, this does not mean that finance activities need to be carried out by those with particular roles or job titles as could be implied from the CDGMAP.

Finance activities rather than 'management accounting'

3. Finance activities in organisations are broad ranging. Through consultation, analysing academic research and finance surveys, including those produced by CIMA, ICAEW examined these activities in our report *The Finance Function: A Framework for Analysis* (2011). This work showed that definitions of 'management accounting' vary. However, it seems clear that management accounting is only a sub-set of finance activities and does not extend to fully include everything in section five of the CDGMAP, for example practice three, external reporting, practice eight, regulatory adherence and compliance and practice eleven, strategic tax management. Maybe the CDGMAP should be retitled to reflect its broader coverage of finance activities.
4. In contrast to the broad range of finance activities the three management accounting principles are quite narrowly defined. This results in problems when the attempt is made to classify disparate management practices under individual principles in section five. Problems include detailed practices not really fitting under a particular principle, inconsistencies in classification and repetition.

The relationships between organisational activities and finance activities

5. ICAEW's finance function framework also sets out the relationships between finance activities and the way they link to other organisational activities. By contrast figure one on page five of the CDGMAP lists finance practices in a circle around a simplified business model. It is not clear how this helps people understand the relationships between the roles of finance and the rest of the organisation.

Uncertainty, change, emergence and linear 'business models'

6. In addition the business model in figure one, despite the inclusion of some feedback loops, presents a fairly linear representation of business, which is often not the case in reality. Indeed in CIMA's publication *Management Accounting: Retrospect and Prospect* (2010), the authors Bhimani and Bromwich argue that 'the traditional and conventional view that comprehensive planning and decision making should precede operational action may falter as there is evidence from firms today that decision objectives often emerge during the process of operations and that decisions may be made whilst operational actions and production activities evolve in practice. It is thus the case that action is at times subsumed in assessments of information.' The CDGMAP do not really reflect this depth of thinking and the significance of uncertainty, change and emergent strategies.

The need to tailor and adapt practices to circumstances

7. The CDGMAP does not seem to draw on CIMA funded management accounting research that highlights the difficulties of establishing rigorous evidence for the effectiveness of particular accounting practices. This problem is exacerbated when trying to generalise across different countries, different industry sectors and organisations of varying size. Again in our report on the finance function we emphasise that finance activities have to be tailored to the needs of the organisation and the business environment. In particular, start-ups and smaller entities may find it impractical, costly and counterproductive to implement the long lists of practices in section five, some of which have the potential to create unhelpful bureaucracy.
8. The CDGMAP do mention the need to adapt and refine tools and techniques (P1) and state that the practices 'are not intended to be prescriptive or exhaustive' (P27). However, given the level of detail and prescriptiveness in the practices themselves these points could get lost.
9. Moreover the acknowledged lack of comprehensiveness leads us to question how the practices in section five should be used and what evidence supports the privileging of certain practices over others. How do the practices discussed help people weigh up the pros and cons of different approaches if they are not comprehensive? To mention just two of many examples why is budgeting (practice one) preferred to 'beyond budgeting' and rolling forecasts; why do detailed practices such as 'resource maps' and 'risk registers' (see practices nine and ten) warrant a mention yet balanced scorecards and competitor analysis do not?
10. While the CDGMAP do refer to forecasting and future oriented processes, we believe the forward looking nature of finance practices needs to receive greater emphasis.
11. It should also be noted that the continued development of innovative practices will make it difficult for the detailed advice in section five to keep pace.

Helping finance professional with the inherent tensions in finance activities

12. Rather than try to rival the numerous books and reports on approaches to management and management accounting we think it is important to highlight the inherent tensions and challenges in finance roles and activities. With increased awareness and practical advice, finance professionals can think about how they deal with such tensions. These tensions include:
 - inevitable differences in the interests of organisational stakeholders and how they define success – this leads to differences in how information is interpreted and used;
 - the balancing of finance involvement in business decisions and the maintenance of independence; and,
 - the trade-offs involved in deciding which finance processes to adopt.

Further discussion of these tensions and challenges are available in *The Finance Function: A Framework for Analysis*.

Inherent tensions in finance activities means the skills and values of those carrying them out are important

13. The inherent tensions in finance activities make it difficult to implement the principles and the finance practices considered in section five of the CDGMAP but such difficulties receive little attention.
14. Moreover, inherent tensions are also the reason why the values of those carrying out finance activities are important. For example pressures from management to misreport or turn a blind eye to unethical practices can be pronounced and it takes character and integrity to stand up to such pressures.

15. Therefore, all respected professional bodies, be they accounting, controllership or other management disciplines, support their members in maintaining their integrity and provide detailed ethical guidance. In addition, each body has a responsibility to find ways to emphasise, publicise and enforce professional values. The CDGMAP coverage of values may be helpful to AICPA and CIMA members in this respect. Similarly, in addition to our ethical guidelines, ICAEW has published broader ideas on integrity in *Reporting with Integrity (2007)* and *Instilling Integrity in Organisations (2011)*.
16. ICAEW will be publishing further advice on how to cope with the inherent tensions and challenges in finance activities by connecting the thinking in our Business Performance Management Community with our Finance Function Framework and in a forthcoming report on Finance Business Partnering.

Although skills and values are important for those carrying out finance activities this does not imply particular job titles

17. Given the wide range of finance activities we have already highlighted, it is unclear why the CDGMAP refers to the values of 'management accountants'. A diverse range of business people with a wide variety of job titles, training and experience are involved in the principles and practices considered in the CDGMAP. If the CDGMAP are designed to appeal to a wider, global audience then maybe use of the IFAC term 'Professional Accountants in Business' or finance professionals would be more appropriate. Even then these labels may be too restrictive. Finance activities do need to be carried out by people who are suitably skilled and adhere to high ethical standards. All professional accounting bodies seek to develop such people. However, they can come from a wide variety of other backgrounds. Indeed greater diversity is associated with better decision quality and increases in innovation.