



Message from the Chair



# Does Internal Control Enhance or Impede?

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Sarbanes-Oxley brings a generous portion of good and bad tidings to the profession of management accounting. On the positive side, it recognizes that the most important part of the accounting profession is the ethical accountant working inside business, exercising

effective and efficient decision support, planning, and control over the organization's value-creating operations and then transparently communicating those results into accurate, reflective (except as distorted by GAAP conventions) public financial reports. For many management accountants, SOX has created staffing increases, visibility, and consulting opportunities.

On the downside, we start to look like the archetype of the accounting "corporate cop." Every assertion must be proven, control processes enhanced, evidence obtained, and discrepancies reported and tracked. Unfortunately, the accounting profession is only equipped with the "after-the-fact quality inspection" techniques to accomplish the task. It's what the auditors understand, and it's all most accountants have been trained to do. Just as management accountants were moving smartly to-

ward strategic business partnership, we've been forced into doing inspections and reviews. Frustrating!!!!

Increasingly I'm asked: "How do we maintain our business partner status while enforcing financial reporting and processing control standards?" "How do we renew our focus on internal controls in a manner that our internal customers can view as more than just a compliance effort?"

I don't pretend to have the answers, but here are some directions I'd like to share.

1. Management accounting needs to revisit and update what is known about controlling processes and apply the thinking to the financial reporting process. We need to review the control techniques used in manufacturing and service to build quality into products and processes and apply them to accounting and financial reporting processes.

2. We need to focus on the devel-

oping techniques of continuous, real-time auditing of financial data. This developing audit technology really puts control in the hands of management. One of IMA's board members, Miklos Vasarheyli from Rutgers University, is a leader in this field.

3. The most effective and unobtrusive way to ensure internal control is preventative controls at the data source. Partner with IT personnel to expand and enhance the use and documentation of automated controls.

4. Financial information is fundamentally data. Data quality assurance is gaining attention in management and information technology literature. The cost of bad data is insidious throughout an organization—wasted time to collect, bad analyses and decisions, rework and revalidation, and, in the accounting arena, fines, penalties, and loss of market value and credibility. We need to bring this body of knowledge into our search for a better solution and better justification of the effort. The CAM-I Cost Management Section published a book by Ashok G. Vadgama and Wayne McCleve titled *Data: The DNA of Business Intelligence* that ex-

plores this subject.

SOX 404 focuses on financial reporting controls, not broad business controls as envisioned by the COSO Internal Control framework. Management accounting obtains most information needed for decision support, planning, and control over value-creating operations from non-financial operational and performance data. These are the leading indicators of financial results and the foundational information for value creation and business decisions.

SOX provides management accountants a reminder that control is a part of our core capabilities and responsibilities. The profession's challenge is to bring the appropriate control approaches and methodologies to our organizations and apply them in a manner that creates value beyond compliance with a financial reporting law. IMA has initiated a study to define how management accountants can best adapt and bring the unique competencies of the subject matter to bear on our significant role in responding to Sarbanes-Oxley as it becomes part of our ongoing responsibilities. We'll keep you posted on its progress.

Please share your thoughts.

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