



Applying Professional Judgment |

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This election season the U.S. Presidential candidates' every move is being scrutinized with a magnifying glass. Every decision each candidate has made throughout his or her career is being dissected and analyzed by the media, by political pundits, and by constituents...and rightfully so. The ability to make good

judgment calls, after all, is paramount to the success of any leader or professional. This holds true for every profession and industry across the board. In accounting, the notion of professional judgment of issuer staff (a company's internal finance and accounting staff who are involved with the preparation of financial reports issued to the Securities & Exchange Commission (SEC) and to investors) is critical to the implementation of principles-based standards.

In 2007, increasing concerns regarding complexity issues in financial reporting led the SEC to form and launch its advisory Committee on Improvements to Financial Reporting (CIFiR). Concerned that complexity issues may be partially responsible for the high level of material financial restatements impact-

ing a firm's cost of capital and investor protections, last December the CIFiR's Standard-Setting Subcommittee invited the Institute of Management Accountants (IMA®) and other organizations to express their views about potential solutions.

In response, IMA issued a statement expressing our belief that accounting standards should be written in a manner that reflects the premise that there is trust and confidence in efficient markets through the respect of professional judgment rather than by attempts to prevent abuse.

As I have said before, we are faced with an enormous lack of adequately educated and certified finance function professionals working inside corporations. Institutions and regulators should address this critical issue by encouraging these workers

to get professional certification premised on something other than a compliance and audit foundation. One example would be the Certified Management Accountant (CMA®) credential.

To exercise appropriate professional judgment, an accounting professional has to have a sound foundation of technical skills sustained and enhanced by professional development and an appropriate professional certification. This includes an annual commitment to ethical behavior. In practice, however, there is a heavy and disproportionate reliance on external auditors to apply professional judgment to a registrant's financial reports rather than an expectation that the registrant's financial reporting will be correct because of the work of the internal finance function's professionals. While external auditors play a valuable role in the financial/information supply chain, they are ultimately responsible for checking the work (at the end of the supply chain) of the internal finance staff responsible for building quality within an organization.

IMA's primary concern with the

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application of professional judgment is one of balance, not bias. Consider, for instance, the education of a finance professional. To provide some context, it's important to note that the internal finance function staff (accounting and financial managers, controllers, CFOs, internal auditors, etc.) comprises more than 90% of the roughly five million finance function and accounting personnel in American society. To make good judgment calls, these workers must have a sound technical foundation and ongoing professional development. A key challenge facing young professionals coming into the workforce today comes as a result of the accounting curriculum taught at colleges and universities. The curriculum focuses on an external compliance orientation instead of training students to apply judgment as management accounting professionals through quality, risk, and performance management approaches.

Management accountants perform a wide range of functions that enable organizations to formulate and implement strategy, drive business performance, and help to create stakeholder value. These functions always start with demonstrated expertise in technical accounting, including transaction processing and financial reporting. In the financial/information supply chain, the management accountant plays a key role in designing, implementing, managing, and reporting financial information to all organization stakeholders, both internal and external. The management accountant is responsible for "building quality in" the financial reporting process so that the audit checklists at the tail end of the process should result in zero defects, meeting a prede-

defined quality-control benchmark.

While management accountants can use this technical foundation as the basis for professional judgment, they still must have the skills, professional development, ethical behavior, and appropriate certification to render these judgments.

Management accountants leverage these skills to drive business performance in more "forward-looking" activities that are generally referred to as decision support and planning activities. These include business cases, merger-and-acquisition (M&A) support, new product introduction support, budgeting, strategic planning, forecasting, enterprise risk management (ERM), process quality techniques, and other value-adding disciplines.

While IMA supports CIFI and its Subcommittee's initiatives regarding complexity in financial reporting, we are interested in changing the balance in accounting education, in the accounting community, and in the regulatory bodies, as I have outlined. We expect professional judgment from our political leaders and peers, and we also must expect it from those responsible for corporate performance and reporting in the financial information supply chain. We must recognize that the millions of finance function workers who actually do the work inside U.S. corporations are the ones responsible for vital judgment calls. To apply professional judgment, these workers must be properly educated and certified and have a commitment to ongoing, pertinent, professional development and ethical behavior. In other words, they must actually be professionals.

What do you think? Please share your thoughts with me at psharman@imanet.org. ■