

WILEY CORPORATE F&A



THE ESSENTIAL CONTROLLER

An Introduction to What Every
Financial Manager Must Know

SECOND EDITION

STEVEN M. BRAGG

The Essential Controller

Second Edition

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Preface

THE TITLE OF *The Essential Controller: An Introduction to What Every Financial Manager Must Know* clearly specifies its purpose; a person newly hired into the controller position needs this book in order to understand the demands of the position and to succeed in the role.

The book describes the role of both the controller and chief financial officer within the corporation, as well as how these roles vary between companies of different sizes. These issues are addressed in Chapters 1 through 3. Chapter 4 describes a variety of efficient practices for managing the accounting department. Chapter 5 turns to internal accounting, also known as cost accounting; it takes the new controller through traditional costing concepts, such as job and process costing, as well as the most recent costing systems, such as throughput, target, and activity-based costing.

Chapter 6 shows the new controller how to analyze information through the use of ratio and trend analysis, which is also a good way to pinpoint the control problems that can be resolved through the control systems changes noted in Chapter 7. It is also useful to understand the process required to issue reliable financial statements, which is covered in Chapter 8. The new controller may work with an internal audit department; Chapter 9 describes the composition and role of the audit committee, as well as the general functions of the internal audit group.

The book then moves on to more general management topics. Chapter 10 turns to the accounting department staffing—how to recruit, hire, promote, and motivate employees. Chapter 11 delves into the new controller's role in dealing with company investors—the information needs of the various investor groups, various methods of communication with them, and the use of a standard disclosure policy. The book concludes with an analysis of tax strategy in Chapter 12, where the impact of a number of key issues on a company's tax liability—the cash method of accounting, inventory valuation, acquisitions, net operating loss carryforwards, transfer pricing, and so on—are covered.

In sum, the book is designed to give the new controller a firm foundation in the concepts of managing the accounting department, analyzing and knowing what to do with key accounting information, and setting up control systems that reduce a company's risk of loss. Knowledge of these core issues is central to the new controller's success in the position.

Steven M. Bragg
Centennial, Colorado
March 2012



CHAPTER ONE

Accounting in the Corporation

Importance of This Chapter

Though this chapter is relatively short, the new controller should read it carefully and ponder the key topics of discussion. We point out that the accounting function is extremely complex, both in terms of tasks and global reach as well as in its impact on other parts of the business. In many respects, the controller position has the most far-reaching impact of any management position, so the new controller must spend time considering how he or she will fit into the complex gearing of the modern corporation in order to achieve the greatest positive impact. Further, ethical issues arise more frequently in the accounting field than in most other areas, so the controller must be aware of these issues and understand the process for dealing with them.

The role of the accounting staff used to be simple enough—just process a basic set of accounting transactions and convert them into financial statements at month-end. The role has undergone a vast change in the last few decades, as technological improvements and a shifting view of management theory have resulted in a startlingly different accounting function. This chapter describes how the accounting function now incorporates many additional tasks and can

even include the internal auditing and information technology functions in smaller organizations. It then goes on to describe how this functional area fits into and serves the needs of the rest of the company, and how the controller fits into the accounting function. Finally, there is a discussion of how ethics drives the behavior of accounting employees, and how this shapes the way the accounting staff and controller see their roles within the organization.

In short, this chapter covers the high-level issues of how the accounting function and its controller fit into the modern company, not only to process its transactions, which was its traditional role, but also to provide additional services.

TASKS OF THE ACCOUNTING FUNCTION

The accounting function has had sole responsibility for processing the bulk of a company's transactions for many years. Chief among these transactions have been the processing of customer billings and supplier invoices. Though these two areas comprise the bulk of the transactions, there has also been a long history of delegating asset tracking to the accounting function. This involves all transactions related to the movement of cash, prepaid assets, inventory, and fixed assets. Finally, the accounting staff has been responsible for tracking debt, which can involve a continuous tracking of debt levels by debt instrument, as well as the payments made to reduce them.

A multitude of changes in the business environment have altered the role of the accounting function. One change has been the appearance of the information technology function. In a larger company, this function is managed within its own department and does not fall under the responsibility of the controller. However, it is common for the information technology group to fall under the management umbrella of the controller in a smaller company. Likewise, the internal auditing function frequently falls under the controller's area as well. This function has expanded in importance over the last few decades as companies realize the benefits of having an internal watchdog over key controls. Though it should report directly to the board of directors or the chief financial officer (CFO), it is common for a small internal auditing staff to report instead to the controller.

Besides adding new functional areas, the accounting staff has other new responsibilities that have arisen due to the increased level of competition. With worldwide barriers to competition crumbling, every company feels the pinch of lower competitive prices and now asks the accounting staff to provide analysis work in addition to the traditional transaction processing. These tasks

include margin analysis on existing or projected product lines, geographic sales regions, or individual products.

Targeted Financial Analysis

One of the controller's key tasks is proactively analyzing company issues and recommending changes. In one case, a new controller solved a company's low-profitability problems by preparing a one-page grid showing the sales volume and profitability of every customer. The president promptly dropped most of the customers having low volume and low margins, resulting in the company deliberately losing 1/3 of its customers—and raising its profitability. ■

Also, different organizational structures complicate the job of the controller. For example, there may be a number of subsidiaries that were created specifically to reduce the taxes on newly acquired businesses, or to take advantage of tax rates in different government jurisdictions. These situations greatly complicate the accounting work of the accounting staff, particularly in regard to consolidating the results of the various entities.

There are also continuing changes to the various accounting frameworks, such as generally accepted accounting principles (GAAP) or international financial reporting standards (IFRS), which require considerably more complicated accounting for some situations. For example, the controller may be called on to capitalize the interest expense associated with a fixed asset under construction, or to accrue a liability for an asset retirement obligation.

In addition, the accounting staff may even be asked to serve on new product design teams, so that they can determine the projected cost of new products, especially in relation to target costs. Further, the accounting staff must continuously review and report on nonproduct costs, which can range from advertising to utilities. This level of cost review and reporting calls for highly trained cost accountants and financial analysts, almost always with college degrees and professional certifications, to conduct the work.

The world of business has become more international. Many companies are doing an increasing volume of business with companies based in other countries. This greatly increases the complexity of accounting, for a company must now determine gains and losses on sales to other countries. In addition, if there is no separate finance function, the accounting staff may be called on to handle letters of credit and hedging transactions that are designed to reduce the level of risk that goes with foreign exchange dealings.

In the face of more intensive competition, many companies are also merging or acquiring subsidiaries. This adds a great deal of complexity to the accounting staff's work, for it must now coordinate a multitude of additional tasks in other locations. This includes setting up standard procedures for the processing of receipts, shipments, and cash. Also, closing the financial books at the end of each reporting period becomes much more complex, as the accounting staff must now coordinate the assembly and consolidation of information from multiple subsidiaries. Even if a company decides to consolidate all of its accounting facilities into one central processing location to avoid all this trouble, it still requires the management expertise to bring together the disparate accounting systems into a smoothly operating facility. This is not an easy task. The environment of mergers and acquisitions greatly increases the skill needed by the accounting staff.

The tasks of the accounting function are itemized below. The tasks that belong elsewhere—but are commonly given to the accounting staff in a small company—are noted under a separate heading.

- *Traditional accounting tasks*
 - Accounts payable transaction processing
 - Accounts receivable transaction processing
 - Asset transaction processing
 - Debt transaction processing

- *New accounting tasks*
 - Coordination and consolidation of accounting at subsidiaries
 - Currency translations
 - Margin analysis
 - Nonproduct cost analysis
 - Selection, implementation, and operation of accounting software and related systems
 - Target costing

- *New tasks assigned to the accounting function of smaller companies*
 - Information technology systems installation and maintenance
 - Hedging, foreign exchange, and letter of credit transactions
 - Internal auditing programs

Given today's highly volatile and ever-changing business environment, the only safe statement to make about the new activities presented in this section

is that they will only become more complex, requiring even greater levels of skill by the accounting staff and its management team.



ROLE OF THE ACCOUNTING FUNCTION

Having noted the expanded number of tasks now undertaken by the modern accounting function, it is important to also note how the role of the accounting staff has changed in relation to the rest of the company.

When the number of accounting tasks was more closely defined around transaction processing, it was common for the accounting staff to be housed in an out-of-the-way corner of a business, where it would work without being impeded by other functions. Now, with a much greater number of tasks, the accounting staff finds itself involved in most major decisions. For example, the cost accountant is expected to serve on product design teams and to let other team members know if new designs will have costs that will meet targeted cost goals. An accounting analyst may be asked by the sales manager to evaluate the profitability of a lease deal being extended to a customer. The controller may be involved in integrating the accounting functions of an acquired business. The accounts receivable clerk may work with the sales staff to collect overdue invoices from customers. And in general, the entire accounting staff may be called on to issue financial reports to other parts of the business, possibly with accompanying formal presentations. For these reasons and others, the accounting function now finds itself performing a variety of tasks that make it an integral part of the organization.

A particularly important area in which the role of the accountant has changed is related to processes. When another area of the company changes its operations, the accounting staff must devise alterations to the existing accounting systems for processing transactions that will accommodate those changes. For example, if the manufacturing function switches to the just-in-time production methodology, this has a profound impact on the way in which the accounting staff pays its bills, invoices customers, monitors job costs, and creates internal reports. Also, if the materials management staff decides to use material requirements planning or integrated distribution management systems, the accounting software should be interfaced to these new systems. To alter its processes, the accounting staff must first be aware of these changes, requiring the accounting staff to engage in more interaction with other parts of the company to find out what is going on.

A company may find that it has to streamline various aspects of its operations in order to lower its costs and remain competitive. This can be a problem for the controller, who may find key controls being eliminated at the same time. This requires a fresh view of which controls are really needed to mitigate risks, and a considerable amount of diplomacy in extending the viewpoint of the controller regarding this issue to the rest of the company. The result may be that some controls must be modified, replaced, or eliminated.

It is very important to develop strong relationships with key suppliers and customers. These business partners will demand extra services, some of which must be fulfilled by the accounting staff. These changes may include the online submission of invoices, providing special billing formats to customers, or paying suppliers by electronic transfer. If these steps are needed to retain key business partners, then the accounting staff must be willing to do its share of the work. Too frequently, the accounting staff resists these sorts of changes on the grounds that all transactions must be performed in exactly the same manner with all business partners. The accounting department must realize that altering its way of doing business is sometimes necessary to support ongoing business relationships.

In short, altering the focus of the accounting staff from an introverted group that processes a few traditional transactions to one that actively works with other parts of a company and alters its systems to accommodate the needs of other departments is required in today's business environment.



ROLE OF THE CONTROLLER

The controller has traditionally been the one who supervises the accounting department, reviews systems, and delivers financial statements. Though the details of the position are covered in Chapter 2, suffice it to say here that the position has expanded to a great extent. As noted earlier in this chapter, the accounting function as a whole is now required to take on additional tasks, to work with other departments more closely, to continuously offer advice to senior management, and to alter systems and controls to match the changing needs of other areas of the company. All of these changes have had a massive impact on the role of the controller within the organization.

The key factor is that, due to the vastly increased interaction with other departments, the controller must be highly skilled in interdepartmental dealings. This involves constant interactions with fellow department heads, attendance at meetings, and the issuance of opinions on a variety of topics regarding the operation of functions with which the controller previously

had no connection. Because of this changed role, the controller must now have top-notch interpersonal and management skills—the former to deal with other departments and the latter to oversee the expanded role of the accounting department.

Forming Alliances

The controller position impacts nearly every part of the company. If the new controller is to succeed in the position, it is extremely important to build strong relationships with the managers of other departments. For example, if there is a large inventory investment, be sure to form a strong bond with the warehouse or materials manager. Also, do not ignore informal lines of communication; in many instances, a very senior person in an innocuous job may have considerable informal control over key functions. In one instance, the author found that the person in charge of developing sales proposals had the best overall knowledge of company operations! ■

In addition, the controller must govern a group of employees that is much more educated than was previously the case. This requires constant attention to the professional progress of each person in the department, which requires goal setting, mutual discussion of training requirements, and continuous feedback regarding employee performance. This clearly calls for management skills of an order far higher than formerly required of a controller that presided over a clerical function.

Also, the wider range of functions managed by the controller now requires a wider range of knowledge. A controller now needs at least a passing knowledge of computer systems, internal auditing, and administrative functions, because this area frequently falls under the controller's area of responsibility. In addition, traditional accounting functions have now become more complex; a controller must know about all of the following:

- The costs and risks associated with outsourcing various accounting functions.
- The impact of tax laws on how the department collects and aggregates information.
- Changes in accounting standards and their impact on accounting reports.
- Changes in the reporting requirements of the Securities and Exchange Commission (for publicly held companies).

It would take a perpetual student to have an in-depth knowledge of all these areas, so it is more common for the controller to manage a cluster of highly trained subordinates who are more knowledgeable in specific areas, and who can provide advice as problems arise.

In short, the role of the controller has expanded beyond that of a pure accountant to someone with broad management and interpersonal skills who can interact with other departments, as well as manage the activities of an increasingly well-educated group of subordinates, while also working with them to further their professional careers. This is a much more difficult role for the modern controller, requiring someone with at least as much management experience as accounting knowledge.

IMPACT OF ETHICS ON THE ACCOUNTING ROLE

With the globalization of business, competition has become more intense. It is possible that the ethical foundations to which a company adheres have deteriorated in the face of this pressure. There have been innumerable examples in the press of falsified earnings reports, bribery, kickbacks, and employee thefts. There are vastly more instances of ethical failings that many would perceive to be more minimal, such as employee use of company property for personal use, “smoothing” of financial results to keep them in line with investor expectations, or excessively robust sales or earnings forecasts. The controller and the accounting staff in general play a very large role in a company’s ethical orientation, for they control or have some influence over the primary issues that are most subject to ethical problems—reported earnings, cash usage, and control over assets. This section discusses how the accounting function can modify a company’s ethical behavior—for good or bad.

The accounting function can have a serious negative impact on a company’s ethical standards through nothing more than indifference. For example, if the controller continually acquiesces to management demands to slightly modify the financial statements to achieve certain targets, this may eventually lead to larger and larger alterations. Once the controller has set a standard for allowing changes to reported earnings, how can the controller define where to draw the line? Examples of such modifications are:

- Allowing sales from the next period to be included in the preceding accounting period.
- Not charging an inventory item to expense, knowing that it is obsolete.

- Spreading recognition of an expense over multiple periods, when it should be recognized at once.
- Maintaining an inadequate allowance for doubtful accounts.

Another example is when the accounting staff does not enforce control over assets; if it conducts a fixed-asset audit and finds that a television has been appropriated by an employee for several months, it can indirectly encourage continuing behavior of this kind simply by taking no action. Other employees will see that there is no penalty for removing assets and will then do the same thing. Yet another example is when the accounting staff does not closely review employee expense reports for inappropriate expenditures. Once again, if employees see that the expense report rules are not being enforced, they will include more expenses in their reports that should not be included. Thus, the accounting staff has a significant negative influence over a company's ethical standards simply by not enforcing the rules.

The previous argument can be turned around for an active accounting department. If the controller and the rest of the accounting staff rigidly enforce company policies and procedures and acquire a reputation for no deviations from these standards, the rest of the corporation will be dragged into line. It is especially important that the controller adhere closely to the *highest* standards, for the rest of the accounting staff will follow the controller's lead. Conversely, if the controller does not maintain a high ethical standard, the rest of the accounting staff will have no ethical leader and will lapse into apathy. Accordingly, in a sense, the controller is a company's chief ethics officer, since the position has such a strong influence over ethics. It is a rare week that passes without some kind of ethical quandary finding its way to the controller for resolution.

Drawing the Line

A new controller may have been specifically hired due to lack of experience, with the management team hoping they can steamroll ethically suspect business practices past the new hire. Thus it is useful to promptly inquire into the reason for the last controller's departure, and to also call the internal and external auditors to discuss their views of how far the company has stretched accounting rules in the past. ■

It is not sufficient to merely say that the accounting staff must uphold high ethical standards, if the standards are not defined. To avoid this problem, the controller should create and enforce a code of ethics. This document may not

originate with the controller—many chief executive officers (CEOs) and CFOs prefer to take on this task. However, the controller can certainly push for an ethical code to be developed higher in the organization. Some illustrative topics to include in a code of ethics are:

- Bidding, negotiating, and performing under government contracts
- Compliance with antitrust laws
- Compliance with securities laws and regulations
- Conflicts of interest
- Cost consciousness
- Gifts and payments of money
- Leave for military or other federal service
- Meals and entertainment
- Preservation of assets
- Restrictive trade practices
- Use of company assets

Once the code of ethics has been created, it must be communicated to all employees. Once again, this is the CEO's job, but the controller should constantly reinforce it with his or her staff. It is especially helpful if the controller visibly refers to the ethical code whenever an ethical issue arises, so that the accounting staff knows that the controller is decisively adhering to the code.

A code of ethics becomes the starting point in the series of judgments a controller must follow when confronted with an ethical issue. The decision tree is:

- **Consult the code of ethics.** Use the code of ethics as the basis for any ethics-related decision. A senior company officer would have difficulty forcing the controller to adopt a different course of action than what is prescribed by the code. If the controller feels it is necessary to take a course of action contrary to what is stated in the code, then document the reasons for doing so. If there is no code, then proceed to the next step.
- **Discuss with immediate supervisor.** The controller's immediate supervisor is probably either the CFO, chief operating officer (COO), or CEO. Consulting with them for advice is a reasonable second step in the absence of a code of ethics. However, if the supervisor is the one causing the ethical problem, then skip this step and proceed to the next one.
- **Discuss with a trusted peer.** There is usually someone within the company in whom the controller places a great deal of trust. If so, consult with this person in regard to the proper course of action. Be more

circumspect in doing so with a person outside the company, since this runs the risk of spreading information elsewhere, with possible deleterious consequences. If there is no one with whom to discuss the issue, then proceed to the next step.

- **Discuss with the company's ethics committee.** If there is an ethics committee, this is a good forum for discussion. Unfortunately, many companies do not have such a committee, or it meets so infrequently that the immediate needs of the controller may not be met through this approach. In either case, proceed to the next step.
- **Discuss with the board's audit committee.** Many boards have an audit committee, which should be comprised entirely of independent directors. If so, the controller should take his or her concerns to this group. Keep in mind that this is a serious step, since the controller is now going around the corporate reporting structure, which may have unenviable consequences later on if the controller chose not to tell senior management of this action.
- **Consider leaving the company.** If all these avenues are untenable or result in inadequate advice, the controller should seriously consider leaving the company in the near future. Reaching this final step probably means that the ethical issue is caused by senior management, and also that there are no outside checks on their ethical behavior, such as an audit committee.

Deciding When to Quit

It is exceptionally damaging for a new controller to be involved in any situation that has even the slightest taint of accounting scandal, since it is nearly impossible to be hired into a succeeding job where this problem is known. Unfortunately, it is frequently better for the new controller to leave a new position where ethical concerns are rampant, rather than to stay on the job and attempt to fix the underlying issues. To assist in making the difficult stay-or-quit decision, consider finding a senior-level mentor who can offer unbiased advice on the correct course of action. ■

In summary, the accounting staff has a large role in enforcing ethical standards throughout a company, since it has such strong influence over several key areas that require ethical judgments, such as the quality of reported earnings, control over assets, and the uses of cash. Accordingly, it is very much in the controller's interests to have a code of ethics that the accounting staff can adhere to in enforcing the appropriate ethical standards.

EVOLVING ROLE OF ACCOUNTING

Though there are many variables that can impact the direction of the accounting function and the controller's role in the future, there are a few broad trends that are likely to continue, and from which you can predict the evolving role of accounting.

The accounting function is in the midst of a fundamental change from being a clerical group without significant training to a cadre of experienced technicians and managers. Though there will always be a need for clerical help (indeed, this group will continue to comprise the majority of the department), there will be an increasing focus on hiring more experienced personnel. This prediction is based on the technological trend that brings continued levels of automation to the accounting function, thereby reducing the need for clerks. Also, the same trend toward more technology means that a greater proportion of the accounting employees must have better training in how to use the new hardware and software.

The accounting department is likely to become a more common route to top management positions. The accounting area has always been a fertile one for training people in the nuts and bolts of transactions and how they must function. This is useful for a lower-level manager, but now that the department also handles a multitude of additional tasks, such as cost analysis, target costing, and advanced finance functions, it becomes a much better training area for higher-level managers. The company of the future will not only see large numbers of well-trained people advancing out of accounting, but they will also see a large proportion of new recruits clamoring to get into it, so that they too can receive the necessary training and experience.

This section discussed some evolutionary changes to expect in the role of the accounting function and the controller. It is likely that there will be a decrease in the proportion of purely clerical positions in the accounting area in favor of more senior personnel with extra technical and management skills. Also, because of the greater breadth of responsibility to be obtained in this area, it will become more common for senior management personnel to come out of this area.

Controller's Responsibilities

Importance of This Chapter

This chapter contains a detailed job description for the new controller. If you are new to the position, the number of tasks may at first seem overwhelming, since they cover so many subject areas. The best way to handle the situation is to first address crucial short-term issues like cash forecasting and meeting debt requirements, and then delegate tasks to the more capable staff, such as assistant controllers.

A controller's job can vary dramatically based on a company's size and whether it has other managers who handle related functions. If a company is small and there are few other managers, the controller may end up with a formidable list of tasks on the job description. However, as a company grows in size, the role becomes more precisely and narrowly defined. This chapter covers the full range of the activities that may be assigned to a controller, beginning with the classical management areas of planning, controlling, reporting, and maintaining key accounting processes, and expanding into ancillary functions that may become part of the controller's job, depending on the circumstances. In addition, the chapter touches on variations in the controller's title and why the term *controller*, though most commonly used, is perhaps not the

best description for the job. The chapter concludes with a review of the relations between the controller and chief financial officer (CFO), the future job description of the controller, and how to manage in an explosive growth environment. This wide-ranging discussion gives the reader a comprehensive view of the controller's job.

VARIATIONS ON THE TITLE

Numerous titles can be applied to the position of the chief accounting officer (CAO); however, the most common title used is controller. The duties are sometimes assumed by a chief accountant, office manager, comptroller, treasurer, assistant treasurer, or secretary. However, with the increased emphasis on accounting control, increased management duties, and for additional statistical and financial decision-making information, the duties of the position are more frequently being segregated into the role of a separate manager called the controller. This is especially true in larger organizations, where there is much more specialization. The term controller is an unfortunate one, for it seems to emphasize the control function only; as the reader will find after reading this chapter, there are a number of other basic functions this person performs, such as planning, reporting, and management, that are just as important as the control function.

The CAO title is a more complete description of the position. However, in some organizations, the CAO is considered a separate and higher-level position than the controller, so we do not use that title in this book in reference to the controller position.

The term comptroller is a more old-fashioned term for the controller, whose use is declining. It is seen in somewhat greater concentrations in government and not-for-profit entities.

PLANNING FUNCTION

The establishment and maintenance of an integrated plan of operation is a major function of the controller. The business objective is usually to earn a profit, and planning is necessary to fulfill it, for profits are difficult to create. Visualize, then, the role of the modern controller in business planning.

First, there is a responsibility to see that a plan exists and that it is supported by all levels of management. The implication of an integrated plan is that

all parts will link together to support the business objective. For this reason, all members of management must participate willingly and contribute to the information in the plan. It must be the company's plan and not the controller's plan. The controller's primary task is to act as the coordinator who assembles and maintains the plan. The result is a master budget and a number of supporting schedules. In more detail, the following points describe the controller's key tasks related to the plan:

- Verify that the revenue plan can be achieved, given the number and productivity of the sales staff, the presence of any bottlenecks within the company, the impact of product life cycles, and so forth.
- Verify that the production plan supports the sales schedule. This involves comparing the amount projected to be sold to the amount to be produced, while factoring in the amount of finished goods inventory already on hand. This also requires judgment regarding the ability of the production operation to increase its output, as necessary, based on skill levels, bottlenecks, raw material sources, and so on.
- Verify that expense levels are in proportion to other activities. For example, the utilities expense must go up if the company is adding a facility, while the travel expense must increase if there will be a larger sales staff. You should also address the need for any step costs, which involve the addition of entirely new expenses at certain activity levels, such as adding a shift, a machine, a facility, or an employee.
- Verify that the organization is spending an adequate amount on the correct set of research and development projects, which includes an adequate mix of low-risk and high-risk projects.
- Verify that there is sufficient funding for the projected activity. If there is not a sufficient amount of debt or equity funding, the plan must be recast on a smaller scale.

Once the plan has been completed, the controller should test or appraise its adequacy and report to the CFO or chief executive officer (CEO) on the results of this analysis. It must be judged based on the following concerns:

- In light of past experience, is it realistic?
- Does it reflect economic conditions that are expected to prevail in the period of the plan?
- Does it include the expected cost of commodities during the budget period?

- Is there a reasonable probability that actual results could vary from the budget, and if so, to what extent?
- Does it meet the company's requirements for return on investment and such other ratio or other tests as may be applicable?

Some of the testing and analysis will be accomplished as preliminary plans are formulated, and the rest will await the total picture. However and whenever it is done, the controller is the counselor and coordinator, extending advice and suggestions to all who need it during the plan preparation. Final responsibility for the plan rests with the CEO, and responsibility for each operating function must be that of the manager in charge of each function. Nonetheless, though responsibility for the plan lies elsewhere, the controller should be deeply immersed in the underlying mechanics and assumptions of the plan.

CONTROL FUNCTION

The controller is responsible for the system of controls used to monitor accounting transactions. This is of considerable importance if the company's books are audited, since the outside auditors may rely to some extent on the system of controls when designing their testing procedures. Controls are of particular importance for a publicly held company, since a robust control system is required, and the company must attest to its adequacy.

The controller should map out all control points in the company and periodically monitor them to ensure that they are operating as planned. Further, these controls may have to be changed from time to time to reflect changes in the operations of the business. These changes may involve the addition of new controls, or possibly the elimination of old controls that are now redundant. For example, if the business were to acquire another company, the controller would need to assess the control systems of the acquired business and integrate them into those of the parent company.

Controls can negatively impact the efficiency of company operations, so the controller should periodically assess the cost and benefit of maintaining each control, and decide whether some controls can be eliminated without increasing the risk of loss to a significant extent.

Control systems should be modified with considerable deliberation, since controls are generally considered to be the responsibility of the controller, and so control failures do not reflect well upon the perceived performance of the accounting department. Thus, most controllers are quite cautious when altering these systems.

REPORTING FUNCTION

The reporting function is closely related to both the planning and control functions. Reporting is essential to make planning and control effective. Yet the reporting function is not merely one of presentation of tabulations and is not wholly routine. Moreover, the management that makes decisions often cannot be kept adequately informed solely from periodic statements regardless of how well designed they may be. The reporting function encompasses the *interpretation* of the figures, and the controller's duty is not discharged until management actually understands what is being presented. At a minimum, this means that the controller should include an interpretive cover letter with the monthly financial statements, describing key changes during the month, and possibly also noting events that are expected to occur in the near future. If there are particularly important items to bring to the attention of management, then the controller should meet with those managers able to act on the information and ensure that they are fully aware of the issues.

In addition, the controller may be required to report to outside entities, which usually calls for some reformatting and expansion of the internal reports. Typical recipients of reports are shareholders, creditors, the general public, customers, and the Securities and Exchange Commission (SEC).

Using Reports to Meet Fellow Managers

In many companies, the only product the rest of the management team sees from the controller is periodic reports. Knowing this, the new controller should use a discussion of the delivery, format, and content of reports as an excuse to meet and gain feedback from the management team. Review their reporting needs with them and make sure they promptly receive the revised information. There is no better way to make a good first impression. ■

ACCOUNTING FUNCTION

The systematic recording of financial transactions is often regarded as the principal function of the controller. The controller is expected to apply sound accounting principles and practices within the company, as well as to stay current on the latest technological advances, so that this can be done in the most effective and efficient manner possible. For example: