Serving Two Masters: Are Accountants Still Fulfilling Both Roles?

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ABSTRACT
The dual and sometimes conflicting roles of the accounting function have been widely discussed. One article calls the dual roles “business partner and corporate cop.” The contradiction in these two critical roles has been highlighted in the last few decades.

The well-documented drive to expand the role of accountants and auditors as business partners ended abruptly in 2002 with the passing of the Sarbanes-Oxley Act (SOX) in the United States. The result was a separation of the conflicting roles into different jobs, at least for many accounting professionals. This created significant potential issues in the profession.

This paper will add to the literature by examining how execution of the dual roles has changed since SOX. This paper will supplement an in-depth review of functional surveys across multiple roles in the profession with original research on the current curriculum. We determine that since SOX, the business demand for strategic decision-making has pushed internal auditors back into a co-pilot role, and management accountants have continued on a steady evolution into the role of a strategic partner. The conflict in these roles will continue to be an issue for accountants of all types. As a result, future accountants in all three areas of work must be trained in both the technical fields and in strategic business analysis. Unfortunately, university programs have not kept pace.

Keywords: Business Partner; Accounting Functional Roles; Accounting Training; Dual Reporting; Sarbanes-Oxley; Strategic decision-making.

1. INTRODUCTION AND LITERATURE REVIEW
The dual and sometimes conflicting roles of the accounting function have been widely discussed. One article calls the dual roles “business partner and corporate cop” (Siegel G. , Business Partner and Corporate Cop: Do the Roles Conflict?, 2000); another calls them the “custodian and co-pilot” (Mars Incorporated, 2005). A more recent journal article divides the business partner role into two roles: a performance management role and a strategic partner role (Hsihui Chang, 2014). These roles contain widely discussed contradictions and paradoxes. Past articles have described how the dual roles are often incongruent (Sathe, 1982), and how business and functional superiors provide

different directions and emphasis to local controllers (Pierce & O'Dea, 2003). For example, will an engineer in trouble with the budget on a capital project willingly share information with the accounting manager to find a solution with a business partner, or hide (at least temporarily) information from the “corporate cop”?

The contradiction in these two critical roles has become increasingly highlighted in the last few decades. During the end of the 20th century, there was considerable push for a more business advisory role in all accounting functions. There is some consensus within the literature behind the reasons for this role emphasis (Burns, 2005). This was a time of driving for efficiency, and of increased cost and market pressure on business. It was a time of new managerial philosophies and increased business complexity (Granlund & Lukka, 1997). Managers looked to double up on roles; they looked to get added value from required tasks. It was a no-brainer to expect your auditor to give consulting advice as well as a financial review. Managers found the value in data and information and sought more, better and timely information and analyses of this information in order to improve decisions. This led to an increased reliance on accounting as a business partner. Paul Thambar tells us that the modern finance function must provide “strategic business insight” and “have deep engagement with business to support and drive strategic initiatives” (Thambar, 2012, p. 65).

This well documented drive to expand the role of accountants and auditors as business partners ended abruptly in 2002 with the passing of the Sarbanes-Oxley Act (SOX) in the United States. After the momentous frauds and accounting deceptions at Enron and WorldCom, it became clear that the appropriate role of auditors, at least, needed to be managed for societies needs rather than simply for business. Sarbanes-Oxley passed in an effort to ensure the audit function was clear of any potential conflicts, including consulting and participating in the smallest way in any business decisions. Sarbanes-Oxley limited the kinds of non-audit work an audit firm could provide to audit clients.

The result was a separation of the two conflicting roles into different jobs, individuals and departments, at least for many accounting professionals. This created significant issues in the profession. When role changes are forced from outside instead of through natural institutional progression there is a significant risk that the social, organizational and functional details may not all properly align. Hopper tells us that accountants’ roles are contingent upon organizational structure and its interactions and dependency (Hopper, 1980). After the change, were firms receiving the needed benefit of both roles, or had they lost critical functions? Who was providing each of the services? Some researchers raised two question, 1) *in the post-SOX world had management accountants reverted to the old bean counter role* (Sinnett, 2007)? And also 2) is training adequately being provided to new accountants for each of the necessary roles even if certain jobs only focus on one?

This paper will add to the literature by providing an answer to both of these questions. It will examine how execution of the dual roles has changed over the last several decades. It will identify if the important accounting contribution to business decision-making process are satisfactory after SOX. It will also make training suggestions for new accountants.

At a high level, accounting roles can be broken into three key areas: the external audit, the internal audit, and the management accountant.

2. CHANGING ROLE OF THE EXTERNAL AUDITOR

Auditing is an essential element of compliance and operational governance. One consequence of the Enron, WorldCom, and associated scandals is a renewed respect for the importance of auditing in protecting our financial markets (Mark, 2005). A third party, for ethical and assurance reasons, usually performs auditing. The purpose of an audit is to provide an objective and independent report on a company's financial statements and controls for both external and internal stakeholders. Audits provide legitimacy and confidence to investors and bankers, managers, and customers alike. A clean audit can help to reduce perceived company risk and the associated cost of capital.

In the past, external auditors were often expected to provide consulting services. Because they examined significant amounts of detailed data, they could often suggest business options and opportunities, both relative to the financial processes and relative to options for growth and profit. In the 1990s, one CFO for a fortune 50 company explained, "Since I'm going to pay for the audit anyway, I might as well get as much as I can out of the service. I invite them to all our staff meetings throughout the year and expect them to share their insight and suggestions" (Lodge, 1995). It was a normal practice for some audit firms to earn as much in non-audit fees as audit fees (Mark, 2005). In addition, Riesenberg tells us that non-audit work provided more than a third of the revenue of the Big Five prior to SOX (Riesenberg, 2002).

Sarbanes-Oxley Act (SOX) of 2002 in the United States, required auditors to increase the level of their audit and increased the amount of work required of auditors on the audit (Sharad, 2009), but most significantly (for this role analysis) section 201 prohibited auditors from providing most non-audit work (tax advice was a major exception). While this might seem like an obvious tightening of the engagement rules after the headline audit failures, it was more of a culmination of "war" between the major accounting firms and the U.S. SEC led by Arthur Levitt during much of the 1990s (Sharad, 2009).

Table 1
The Percent of the Financial Audit Dedicated to SOX Requirement

	2012	2013	2014	2015	2016
SOX % of Audit	12%	13%	12%	11%	11%

Source: Annual reports of the Institute of Internal Auditors

Table 1 shows that while the amount of work required for SOX is significant it has not been growing nor significantly encroaching on the other key parts of audit work. The financial audit work categorization of external auditors has been stable for a number of years.

Because of SOX, accounting firms spun-off, sold, or shed the consulting services from computer systems work to cost analysis to strategy. Between 2000 and 2002, EY, PwC, and KPMG sold their consultancy practices to Capgemini, IBM, and Bearing Point (Loxton, 2015). Only Deloitte kept their practice and limited it to non-audit clients.

These new consulting services lost any synergy from the full insight into the data and processes that the accounting firms had enjoyed. One evidence that a needed business contribution was missing is that after a few years all of the Big Four have entered into consulting again (after the non-complete agreements with their former divisions had expired). They now divide their client base between audit and consulting. While they have not yet reached the levels of pre-SOX, non-audit work it has become a significant part of their global business (Agnew, 2015).

3. CHANGING ROLE OF THE INTERNAL AUDIT

"Internal and external audit are differentiated largely by their objectives and whom they report to. Internal audits report to a company's management and board, and provide an evaluation of a firm's effectiveness of governance and control processes, supporting management responsibility towards organizational operability. Improvement is fundamental to an internal audit, while it isn't for an external audit" (ACCA, 2019).

According to the Institute of Internal Auditors (IIA), the scope of internal auditing and the reporting relationship was relatively simple in the past. Internal auditors' emphasis is on control (IIA, 2013). However, the current definition of internal auditing in The IIA's International Professional Practices Framework (IPPF) is described as follows: "internal auditing is an independent, objective assurance *and consulting activity designed to add value and improve an organization's operations*. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes" (Definition of Internal Auditing, 2016, p. 1). The internal audit role in consulting is evolving.

Dual reporting (serving two masters) aids in the primary internal audit function of control. If the Chief Audit Executives (CAE) reports to the Controller (CFO), their role as CAE becomes just one part of the CFOs responsibility. A 2012 survey of CFOs of public companies highlights the potential problem with a CAE reporting only to the CFO. The survey found that in any given period, about 20% of firms manage earnings to misrepresent economic performance. The amount of misrepresentation for these firms is typically around 10% of EPS (Dichev, Graham, Harvey, & Rajgopal, 2013). Dual reporting lines can alleviate the problem. A survey by the IIA found that in 2017, most CAEs have separate functional and administrative reporting lines. Functional reporting refers to oversight of the responsibilities of the internal audit activity, including approval of the internal audit charter, the audit plan, evaluation of the CAE, and compensation of the CAE. Administrative reporting refers to day-to-day matters. The survey found functional reporting for the CAE is to a board-level oversight in 92% of publicly traded and 84% of private companies. Administratively, the majority of CAEs report to the CFO (IIA S. , 2017). This dual reporting helps internal auditors to maintain their independence and objectivity. A reporting relationship to the board of directors or CEO allows the internal auditors to better perform the co-pilot role of analysis and advising. As you can see in Table 2, there has been a shift toward functional reporting over the last two decades.

Table 2
Measures of Internal Audit Linkage to Senior Management

Internal Audit Functional Reporting		2003	2013	2016
	BOD/CEO	77	86	92
	CFO	19	6	5
Internal Audit Administration Management				
	BOD/CEO	33	43	44
	CFO	51	37	35

Source: Annual reports of the Institute of Internal Auditors

There have been costs with the internal auditor's shift toward more strategic business activities. A 2011 survey by the IIA showed that there had already been a shift in the focus of internal audit work away from Sarbanes-Oxley-related activities and toward more strategic business activities as demanded by management (IIA-, 2011). External auditors responded with the 2013 PCAOB Staff Audit Practice Alert No. 11, which gave new guidance on using the work of others. The alert specifically notes concerns with using the work of internal audit (PCAOB, 2013). Following Alert No.11, a number of firms saw less external audit reliance on the work of internal audit when conducting internal control over financial reporting evaluations (IIA., 2015).

Table 3
Percentage of Firms Increasing Internal Audit Budget less Those Decreasing the Budget

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net increase-decrease	22	-2	4	12	20	25	26	33	26	33

Source: Annual reports of the Institute of Internal Auditors

As seen in Table 3, firms believe in the capability of the internal audit to add value and, as a result, a significant number of firms are increasing the internal audit budget. However, KPMG's international survey found that audit committee members want the internal audit to focus on the critical risks to the business, not just compliance and financial reporting risks (KPMG, 2017). Table 4 shows how internal audits currently split their tasks between the dual accounting roles and have attempted to migrate more into a strategic partner role. A survey of Fortune 500 companies found that although 63% of respondents said strategic business risks was a top priority for their audit committee, a majority of them did not have coverage of strategic business risks in their upcoming internal audit plan (IIA, 2013). This suggests a misalignment of priorities. Another problem has been a lack of expertise among internal auditing staff. A recent survey of CAEs found the majority are not significantly involved in evaluating the quality of an organization's data. More importantly, they are not confident in the strategic decisions made based on that data (IIA N. , 2016). As internal audit moves to a higher value-added model, the demand for expertise is only going to increase.

Table 4
Work Categorization of the Internal Audit

	2012	2013	2014	2015	2016
Co-pilot	10	Na	10	13	16
Custodian	90	Na	90	87	84

Source: Annual reports of the Institute of Internal Auditors

Strategic tasks categorized as co-pilot while others were categorized as custodian.

4. CHANGING ROLE OF MANAGEMENT ACCOUNTING

There was a time when management accountants were often viewed as 'bean counters' who performed their control responsibilities with little participation in decision-making. More recently, they have come under pressure to participate more in operational and strategic decision-making (Siegel & Sorensen, 1999). Burns tells us that there is some consensus around the influences that pushed the management account more toward the co-pilot role (Burns, 2005). These include the need for efficiency and dealing with increased cost and market pressure on business. There were also many new managerial philosophies and increased business complexity (Granlund and Lukka, 1997).

Because of these pressures, management accountants had a major role shift in the 1990s from traditional control to performance management consulting (Evans, Ashworth, Gooch, & Davies, 1996) (Scapens, Ezzamel, Burns, & Baldvinsdottir, 2003). Who gets a seat at the table as a business partner and who gets to participate in strategic discussions depends a great deal on their level of expertise. Interviews suggest that how corporate accountants think others perceive their role in the company varies according to their level in the organization. Top-level corporate accountants feel they are viewed as true business partners and trusted advisors. Lower level accountants feel others view them more stereotypically as scorekeepers and police (Siegel G. , The Image of Corporate Accountants, 2000).

In spite of the growing shift toward consulting, management accountants still retain a great obligation for the accuracy of the financial reporting within a company. They have a functional responsibility to the corporate level, owners, and stakeholders to properly communicate the financial situation of the business unit. This is not always easy given their dual responsibilities and dual reporting relationships. In fact, almost 50% report that they have been pressured, at least incidentally, to do such things as booking transactions late, re-labeling line items, or arranging for slack in performance targets (Mass & Matejk, 2009). For this reason, there have been some researchers that have suggested a stronger functional reporting relationship to the corporate controller would be helpful (Indjejikian. R. J. and Matejk, 2006). However, management accountants are also members of local management and project teams who need to work as partners rather than cops. A survey of 134 business unit controllers showed that their loyalties are very much split. Mass and Matejka (2009) report the following influences from their local business management and their corporate accounting management shown in table 5. Both business units and accounting managers are important influencers which necessarily leads to role conflicts.

Table 5
Who has the Most Influence Over Management Accountants

Local Business Management	Accounting Management
Performance evaluation	Promotion and transfer
Salary increase	
Selection and placement	
Dismissal	
Work priorities	

Given the questions about their possible retrenchment to previous roles after SOX (Sinnett, 2007), it is important to note what management accounts themselves say are their most important roles in the 1990s and now. A study by Yazdifar and Tsamenyi collected survey data randomly from 1000 members of the Chartered Institute of Management Accountants. They found the following results (Yazdifar & Tsamenyi, 2005):

Table 6
The Top Five Management Accounting Roles in the 1990s and 2000s

Decade of 1990	Decade of 2000
Analytical/Interpretive	Analytical/Interpretive
Integration of financial and non-financial information	IT/Systems Knowledge
Broad Business Knowledge	Integration of Financial and non-financial information
Team-work	Broad Business Knowledge
Oral Communication	Strategic Thinking

Survey from IMA

Notice that the 1990s roles are stacked heavily toward the co-pilot role. The role changes after SOX are even more heavily slanted toward the co-pilot role.

5. CURRENT TRAINING ISSUES

Given the need for all three major groups of accountants to continue to perform in dual roles, the need for training in analytical as well as technical skills is paramount. Accounting programs are packed with technical training and professional exam specifics to the point where very few electives are available. Paul Thambar (2012) suggests that the modern finance function, especially that of business partner will require a greater level of business and IT skills. In an effort to determine if this has occurred, the authors completed a 2018 survey of small school accounting programs primarily throughout the Southeast U.S. The findings indicate that in the upper division core courses there is a significant lack of training targeted towards analysis and strategy (Brumm, 2018). Table 7 below shows that only 40% of programs had a quantitative analysis class and 20% had neither a quantitative analysis nor management science class.

Table 7
Upper Division Business Core Accounting Courses for Small Regional Accounting Programs

Course	Coverage
Business Statistics	90%
Quantitative Analysis or Statistics II	40%
Management Science	60%
Financial Management	100%
Essentials of MIS	80%
Marketing	100%
Management principles or	100%
Business Policy	100%
Business Communications	100%

Next, the authors looked at requirements at tier-one research universities throughout the United States. Fifty percent of accounting programs at research universities required calculus versus only ten percent at smaller regional programs. . Table 8 below shows that eighty percent required a lower division statistics course. However, similar to the smaller regional accounting programs, only thirty percent have a quantitative analysis (or a second statistics course) in addition to the lower level statistics course.

Table 8 *Quantitative analysis courses requited in accounting programs at tier one research universities in the United States*	
Course	Coverage
Lower Division statistics course	80%
2nd Quantitative Analysis course	30%

When a quantitative analysis course in addition to the basic statistics course is not provided, accountants will miss forecasting techniques, predictive data mining, modeling, linear optimization, and decision analysis. Given the evolution and demand on account's roles this is the most significant item missing in training. If we expect accountants to take a seat at the table and fulfill the demanded dual role of co-pilot, we must do better. Training in analysis and strategy must be made available both in universities and in corporate training programs.

CONCLUSION

The contradictions and paradoxes of the dual accounting roles have continued through SOX, the reevaluations of internal audit, and the continued strategic role emphasis on management accountants. In the last two decades the business demand for strategic decision-making has pushed internal auditors back into the co-pilot role, and management accountants have continued on a steady evolution into the role of a strategic partner. The conflict of these roles will only increase for accountants of all types. As a result, future accountants in all three areas of work must be trained in both the technical accounting fields and in strategic management and data analysis. There is currently a dearth of accounting training dedicated towards analysis and strategy. Professional bodies recognize this, and they are pushing for improvements. The CIMA, for example, now requires a capstone class that includes business skills such as strategic agility. Since 2013, the AICPA has been considering how to restructure the U.S. CPA exam to focus on higher-level skill sets. They implemented a number of these changes in 2017.

One longtime member of many boards of directors said, "We need more out of our accountants. They see the numbers and understand the data better than anyone else does. They are in the best position to make sense out of it and I expect them to sit at the table and provide input. I can read reports; what I want from them are strategic recommendations." (Parsons, 2019, p. 1).

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