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Why Accounting and Cost Control roles Should be Neatly Separated in Project Organizations

One of the most common misconceptions in the field of Project Cost Control is to believe that it is just an extension of Accounting – because it deals with money. Nothing could be furthest from the reality - Project Cost Control primarily requires a deep business understanding so as to be able to produce a sound forecast of the project situation at its completion. In this White Paper we examine why there is such a difference in project environments and why Project Cost Control and Accounting should be neatly separated.

The particulars of project activities

Accounting as a discipline developed in the 19th century as industry – manufacturing mainly – developed. Accounting deals primarily with ensuring the integrity of company accounts, in particular when it comes to its actual value for its shareholders. In particular, Accounting deals with the liabilities of the organization, generally visible through invoices from third parties.

If you intended to run your projects with only a classical Accounting function, forget it. You need absolutely to implement a rigorous Cost Control process, with Cost Controllers that understand the business.

Financial forecasting is then quite straightforward in most industries where the future is the repetition of the past, with a few tweaks. It can be safely left with accounting and usual financial analysis techniques.

In projects, activities that are performed are unique, in a given sequence that make forecast of the future poorly related to the knowledge gained from the performance of past activities. Performing projects with an accounting process only would not only not respond to the need to forecast, but would also mean that the data of cost spent would be obsolete as there is always a delay between the performance of work and its accounting (receipt of invoice). The project manager would then navigate with a view of how the project was faring a few weeks ago, and with poor visibility as to the landing point.

The discipline of Project Cost Control thus evolved as a specific requirement for projects so as to ensure that the Project Manager constantly has access to up-to-date cost information (Actual Cost) and to a proper forecast of the project completion based on sound business understanding.

How to split activities between Accounting and Cost Control

The Accounting function is required in any organization for a number of reasons including statutory compliance, financial control, treasury and tax. It responds to necessary short term, reactive requirements: payment of invoices, cash flow, treasury etc. It is important to make sure that responsibilities are clearly split between Accounting and Cost Control.

Failure to appropriately separate Accounting and Cost Control will lead to severe dysfunctions – in particular a lack of proper project forecasting

Failure to do so, and to appropriately resource the project Accounting side, will inevitably lead to Cost Controllers being involved in short-term required activities such as invoice processing and the like, leaving no time for analysis and forecasting. The combined Accounting and Cost activities on a project are vital to delivering a successful project, and therefore ensuring that each activity is given adequate attention is critical. The effect of such dysfunction is not visible immediately, because the Cost Controller role is a longer term anticipation role; however, it will be very painful later during the project when the amount of inaccurate forecast, cost consumption reporting and understanding of the cost drivers will bite back.

The best way to avoid such a dysfunction is to create, from the beginning, a clear distinction between Accounting and Cost Control at the functional level, and make sure that any carry over work from Accounting, if unavoidable, is limited in scope and time. This means that:

- at the functional level, Cost Control should not report to the Finance department,
- the interfaces between Cost Control and Accounting should be clearly defined upfront in terms of responsibility, timing and interface documents or information,
- Cost Controllers should not be involved in invoice processing apart from coding invoices according to the project Breakdown Structure, and defining the project Breakdown Structure,
- the necessary reconciliation between Cost Control systems (commitments) and finance (accounting), and definition of the accruals, need to be led by one function clearly defined as being in charge,
- Financial reporting over different legal entities, variable foreign exchange rates, taxes, etc. should be exclusively managed by the Finance function (the breakdown structure will have been setup so as to facilitate this reporting by capturing cost and revenue per legal entity).

The following table gives a typical example of a split of responsibility between Cost Control and Accounting. All successful international project-driven organizations implement a similar essential distinction between Finance and Cost Control.

Cost Control	Accounting
• Maintenance of *project cost model* (time-phased, native currency) • Cost forecasting (Estimate At Completion (EAC)) • Contingency management • Develop and maintain project break-down structure • EAC variance analysis • Trending and analysis • Determination of sensitivities • Commitments control • Participate to reconciliation to determine accruals	• Revenue / profit recognition (Percentage of Completion (POC) method) • Accounting periods close-out • Accounting ledger maintenance incl. invoices treatment & payment • Cash flow management • Currency hedging / transfers • Inter-entity billings (inside organization) • Tax • Drive reconciliation with Cost Control to determine accruals

Another reason to segregate Cost Control and Accounting is to achieve a 'check-and-balance' situation by having in effect two distinct control systems for the project finances: the accounting system and the *project cost model*. Both look at the project from different perspectives and it adds a lot of value to maintain these two views as independent as possible to increase the level of control on project activities. Automatic data transfer between the two systems should be treated with care so as not to lose the interest of having two relatively independent points of view.

Conclusion: a clear separation between Cost Control and Accounting is essential

If you intended to run your projects with only a classical Accounting function, forget it. You need absolutely to implement a rigorous Cost Control process, with Cost Controllers that understand the business. Furthermore, Cost Control should be neatly separated from Accounting to ensure that proper forecasting will be done, and to give the organization an extra control layer that will be extremely useful in the midst of project execution.

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