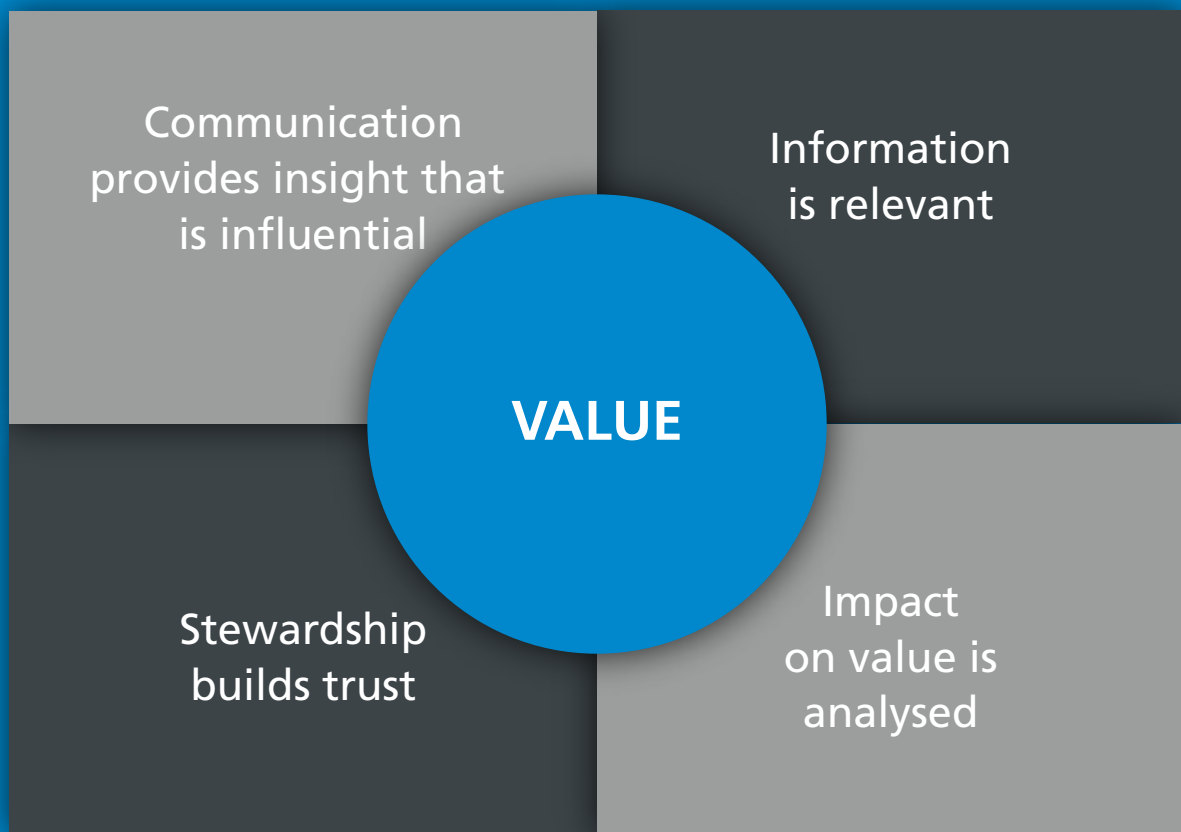


PAS 1919:2016

# Guide to management accounting principles



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# Foreword

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The recommendations described in this PAS were developed from the *Global Management Accounting Principles* [1].

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As a guide, this PAS takes the form of guidance and recommendations. It should not be quoted as if it were a specification or a code of practice and claims of compliance cannot be made to it.

It has been assumed in the preparation of this PAS that the execution of its provisions will be entrusted to appropriately qualified and experienced people, for whose use it has been produced.

## Presentational conventions

The guidance in this standard is presented in roman (i.e. upright) type. Any recommendations are expressed in sentences in which the principal auxiliary verb is "should".

*Explanation and general informative material is presented in italic type, and does not constitute a normative element.*

Where words have alternative spellings, the preferred spelling of the Shorter Oxford English Dictionary is used (e.g. "organization" rather than "organisation").

## Contractual and legal considerations

This publication does not purport to include all the necessary provisions of a contract. Users are responsible for its correct application.

# Introduction

Management accounting lies at the heart of an organization, at the crossroads between finance and management. It provides structured solutions to unstructured problems, by translating the complex into the understandable and compelling. Bringing together both financial and non-financial considerations, it is a discipline that could be used to run the organization, to control and improve performance.

The business model is the means by which an organization generates value, because management accounting requires a thorough understanding of the business model, as well as the organization's market and macroeconomic environment. It contributes to sustainable success, through the achievement of long-term economic performance while minimizing environmental impacts and generating positive value for society.

Management accounting helps organizations make better decisions by extracting value from information. Rooting decisions in evidence, or basing them on informed judgement rather than conjecture, makes sustainable success more achievable. All the management accounting principles (see Clause 3) flow from this ambition.

As a profession, management accounting requires a thorough understanding of the business and its operating environment so that organizational risks and opportunities are known. By managing and responding to risks, organizations can exploit opportunities and generate value for stakeholders over time.

The role of Chief Finance Officers (CFOs) is changing; in many organizations that remit is expanding to include IT, human resources, and even operations. However, a core part of the CFO's responsibility is the management accounting function. To ensure breadth of relevance to organizations globally, this PAS therefore limits the application of the principles to the key activities (see Clause 6) that the management accounting function, under the leadership of the CFO or equivalent, does in order to assure stakeholders of sustainable performance.

Frameworks that underpin the Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards, provide clarity about how to report the organization's financial position and past performance. Until now, there has been no equivalent framework to guide management accountants in supporting decision-making, contributing to improved performance and achieving sustainable success. The management accounting principles set out in this PAS fill this void by providing a basis on which organizations can set their own benchmarks for the management accounting function.

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# 1 Scope

This PAS gives guidance for organizations on assessing the performance of the management accounting function.

It covers the four management accounting principles that:

- communication provides insight that is influential – encouraging insightful communication that drives better decisions across an organization;
- information is relevant – reviewing past, present and forward looking performance management information;
- impact on value is analysed – understanding an organization’s strategy and business model; and
- stewardship builds trust – balancing short-term commercial interests against long-term value for stakeholders.

This PAS is for use by all organizations, including but not limited to; large, small, public, private, local and international and their investors and stakeholders.

***NOTE** It is aimed at those responsible for providing and delivering management accounting functions, including chief executives, chief financial officers and other board members.*

# 2 Terms and definitions

For the purposes of this PAS, the following terms and definitions apply.

## 2.1 business model

organization’s chosen system of inputs, business activities, outputs and outcomes that aim to create value over the short, medium and long term

{SOURCE: International Integrated Reporting Council, *Business model background paper for IR* [2]}

## 2.2 business partnership

any external body along the value chain with which the organization has a relationship

***NOTE** For example, customers and suppliers.*

## 2.3 cost driver

factor that causes a change in the cost of an activity

***NOTE** For example, the number of client calls answered, hours spent on servicing an account or the number of sales personnel in a department.*

## 2.4 cost transformation and management

sustained identification and reduction of waste across the organization while freeing up resource to invest in innovation that drives future value for stakeholders

## 2.5 data plan

sourcing, assembling, refining and presenting of all the data that is needed to evaluate and prioritize, set targets, predict outcomes and measure the execution of plans

***NOTE** See also 5.2.2.2 for further information on data plans.*

## 2.6 ethics

application of standards to business behaviour

*NOTE Ethics are relevant both to the conduct of individuals and to the conduct of the organization as a whole. They apply to any and all aspects of business conduct, from boardroom strategies and how organizations treat their employees and suppliers to sales techniques and accounting practices.*

## 2.7 execution

implementation of plans over time

## 2.8 external reporting

provision of an integrated and comprehensive view of the organization's strategy, business model, and performance which together forms the basis for an effective assessment for external stakeholders

## 2.9 financial strategy

identification of the possible strategies capable of maximizing an entity's net present value, the allocation of scarce capital resources among the competing opportunities and the implementation and monitoring of the chosen strategy to achieve stated objectives

## 2.10 integrated thinking

active consideration by an organization of the relationship between its various operating and functional units and the resources that the organization uses or affects

## 2.11 internal audit

provision of independent assurance that an organization's risk management, governance and internal control processes are operating effectively

{SOURCE: [www.iaa.org.uk/about-us/what-is-internal-audit/](http://www.iaa.org.uk/about-us/what-is-internal-audit/) [3]}

## 2.12 investment appraisal

assessment of whether or not to pursue a particular asset based on alignment with strategy, prioritization of options, affordability and acceptable returns versus unacceptable risks

## 2.13 management accounting

sourcing, analysis, communication and use of decision-relevant performance information to generate and preserve value for the organization

## 2.14 management and budgetary control

system of developing and validating targets and thereafter controlling performance against predetermined targets at all levels of the organization

*NOTE These can include projects, people, activities, processes, sales volumes and revenues, resource quantities, operating costs and expenses, assets, liabilities and cash flows, as well as other non-financial measures.*

## 2.15 management accounting principles

fundamental values, qualities, norms and features that guide management accounting

*NOTE There are four principles: communication provides insight that is influential, information is relevant, impact on value is analysed, and stewardship builds trust (see Clause 3).*

## 2.16 plan

description of how the organization intends to achieve its strategic objectives

## 2.17 practice area

activity undertaken by or with contribution from the management accounting function

## 2.18 price, discount and product decision

deciding what to produce or what service to provide and determining the selling price and discount structure for a product or a service



## 2.19 project management

integration of all aspects of a project, so that the proper knowledge and resources are available when and where needed and above all, to ensure that the expected outcome is produced in a timely, cost-effective and quality controlled manner

## 2.20 regulatory adherence and compliance

fulfilment of statutory and regulatory obligations in relation to accounting, statutory reporting, tax and other regulatory compliance

*NOTE The objective is to prevent penalties and other enforcement activity and promote the reputation of the organization for good corporate citizenship.*

## 2.21 relationship

interaction the organization has with a supplier, customer, investor, member, employee and the community that provide access to resources and to markets

*NOTE An organization might incur a cost in maintaining relationships but also derives value from them.*

## 2.22 resource

input that an organization uses to create value

*NOTE These may include people, raw materials, technology, financial and other resources. Security of supply, quality and cost are essential.*

## 2.23 resource management

consideration of the priority of resource availability in the context of organizational decision-making

*NOTE Resource management helps organizations to efficiently and effectively manage transformational or continuous improvements to products and processes. It involves the alignment of resources, systems and employees to strategic objectives and the organization's priorities.*

## 2.24 reviewing and refining

assessment and reporting on past and forecast performance, refining plans and strategies

## 2.25 risk

possibility that an objective cannot be achieved and that the business is unable to operate as planned

*NOTE Risks can apply to all the activities in which the organization is involved. Risks can arise from the interaction of relationships and resources, as well as from changes in the external business environment.*

## 2.26 risk management

process of identifying, assessing and responding to uncertainty arising from setting and achieving the organization's objectives to support the delivery of its strategic objectives

## 2.27 scenario simulation

generating insight from the results of different models to understand the effect on value of undertaking a particular opportunity and its associated risk

## 2.28 stewardship

active management of relationships and resources so that the financial and non-financial assets, reputation and value of the organization are protected

## 2.29 strategic tax management

role of tax in financial analysis and decision-making while proactively managing the organization's tax position so that legal requirements and ethical standards are met

## 2.30 strategy

statement of organization's purpose, explanation of its value proposition to customers and principle stakeholders and definition of its core objectives together with their measures and targets

### 2.31 sustainability

achievement of short-, medium- and/or long-term economic performance while minimizing environmental impacts and generating positive value for society

### 2.32 timely

prepared in time for the decision to be made

*NOTE 1 This may mean the information is supplied a week beforehand, because it is complex and the decision-makers need to consider the information/data, or it may mean in time for the meeting when the decision is being made.*

*NOTE 2 Timeliness is an accounting principle, that is written on the basis of the concepts/principles of timeliness (as well as others such as relevance and accuracy). See <http://accounting-simplified.com/financial/concepts-and-principles/timeliness.html> [4].*

### 2.33 treasury and cash management

tactical and strategic handling of all financial matters impacting the business including: the generation and deployment of funds for business and investors, sourcing funding internally, from banks, capital markets and specialists; the management of currency, interest rate, liquidity and other risks, and cash management

### 2.34 value

satisfaction of stakeholder requirements and the wider society

## 3 Management accounting principles

### 3.1 General

The purpose of the management accounting principles is to support CEOs, CFOs, boards of directors, or equivalent, in benchmarking and improving their management accounting functions. This helps them to meet the needs of their organizations, effectively and efficiently, by checking that they are adding value for their internal and external stakeholders.

There are four overarching management accounting principles that describe the values, qualities, norms and features for management accountants to aspire to (see Figure 1). The four principles are:

- a) communication provides insight that is influential (see 3.2);
- b) information is relevant (see 3.3);
- c) impact on value is analysed (see 3.4); and
- d) stewardship builds trust (see 3.5).

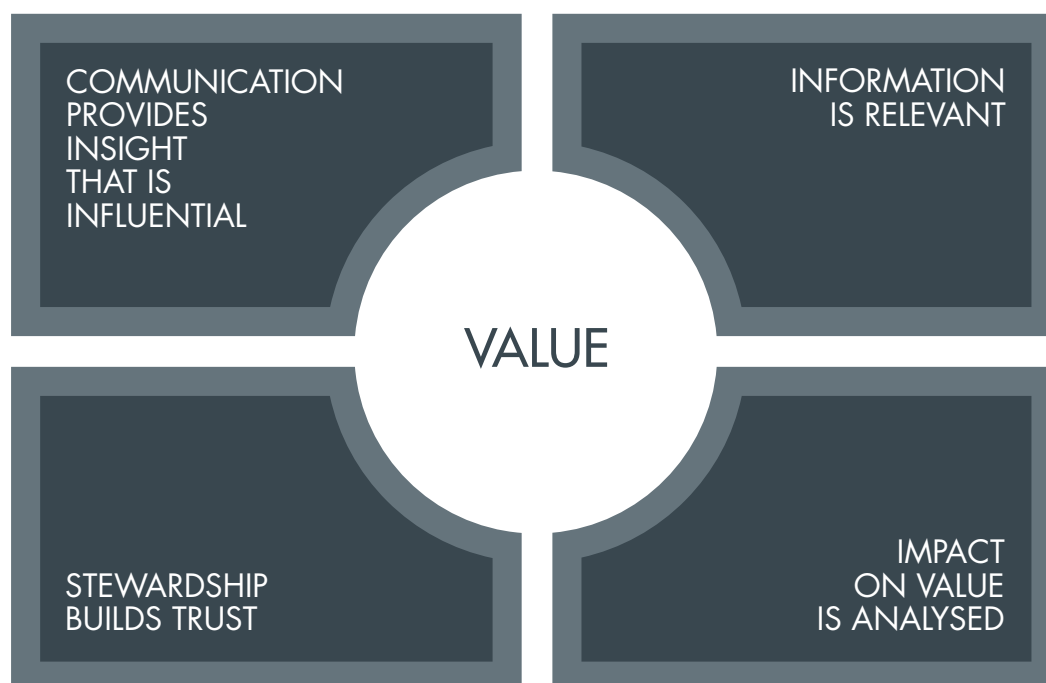
### 3.2 Communication provides insight that is influential

#### 3.2.1 Objective

The objective of this principle is to drive decisions about an organization's strategy and its execution at all hierarchical levels, through insightful communication.

Management accounting begins and ends with communication. It improves decision-making by communicating information at all stages of the process. Communication of information allows management accounting to cut across silos and facilitate integrated thinking. Through effective communication, the consequences of actions in one area of the business on another can be better understood, accepted or changed.

**Figure 1** – Management accounting principles



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By discussing the needs of decision makers, the most relevant information can be sourced and analysed. This results in recommendations which are useful to the decision-maker and achieve influence.

This principle therefore requires the breaking down of complexity and the provision of transparency about how conclusions have been reached.

*NOTE When the right people have the right information at the right time, they are better placed to make decisions that drive long-term value generation.*

### 3.2.2 Strategy development and execution is a conversation

Conversations about strategy execution should take place at all levels of the organization and should involve all employees, eliminating silo activity and thinking. This allows a clear line of sight between top-line objectives and individual targets. Management accounting can bring rigour to these conversations, allowing decisions to be made about the future of the organization.

### 3.2.3 Communication is tailored

The level of detail and method of communication should be tailored to users of the information, to the decision under discussion and to different decision styles or processes used.

The level of the audience's financial knowledge should be established and information presented in a way that is easy for them to understand. Impact is achieved through robust, credible, timely and appropriate evidence-based information.

Communication should offer an integrated, comprehensive and balanced view of the organization's past performance, its current position, future prospects and planned innovations. Management reports should always be based on the concepts of transparency, prudence, stewardship and reliability, eliminating immaterial information, clutter, jargon, opacity and poor structure.

### 3.2.4 Communication facilitates better decisions

Since the purpose of management accounting is to improve organizational decision-making, recommendations based on the other three management accounting principles (see 3.3 to 3.5) need to be presented clearly, succinctly and in an appropriate format for the user, taking into account the organization's context, and providing rationale. This can help build consensus about the best course of action, with the final decision being justified.

Management accounting also requires an understanding of the decisions the organization needs to make. This informs the data collection and analysis, in line with the "information is relevant" principle (see 3.3). No amount of information and analysis is useful unless it has influence and helps to generate and protect the long-term value of the organization.

## 3.3 Information is relevant

### 3.3.1 Objective

The objective of this management accounting principle is to help organizations plan for and source the information needed for creating strategy and monitoring tactics for execution.

A central role for management accounting is to make relevant information available to decision-makers on a timely basis (see 3.3.2). Following the communication principle (see 3.2), the decision at hand and needs of the decision-maker are known and understood.

This principle therefore involves the identification, collection, validation, preparation and storage of information. It requires the organization to achieve balance between:

- a) past, present and forward looking information;
- b) internal and external information; and
- c) performance (including environmental and social issues) information.

### 3.3.2 Information is the best available

Management accounting identifies sources and quality assures information that relates to the decision-maker. It also takes into account the operating environment, including the decision style or process being used. By understanding the needs of stakeholders the information for decision-making is identified, collected and prepared for analysis.

### 3.3.3 Data are reliable and accessible

Data needs to be cleaned, sorted and filtered before being used for analysis. The value of data is based on its quality, accuracy, consistency, usefulness and timeliness. It is timely in relation to decisions that have been or are to be taken in a given period.

Data should be protected to avoid the risks of corruption and loss. If incomplete or unverified data has to be presented, it should always be flagged as such so that decision-makers can take a view on the level of confidence they wish to have in the data.

### 3.3.4 Information is contextual

Management accounting should use information with the following three key characteristics.

- a) Time-related – information is drawn from past and present as well as from predictive insights about the future.
- b) Boundary-related – information is not constrained by organizational boundaries. It is drawn from inside and outside the organization, including from financial and operational systems, from customers, business partnerships, suppliers, markets and the macroeconomy.
- c) Data-related – information is both quantitative (both financial and non-financial – including environmental and social issues) and qualitative.

Quantitative and qualitative skills are needed in management accounting, to inform decision-making on the basis of past and present data and predictive insights.

*NOTE For example, management accounting can provide hindsight to determine performance. It can provide insight from real-time information about the present, to monitor the execution of strategies and plans and to bring them in line with targets. By using simulations, forecasting and other predictive tools, management accounting also provides foresight to guide the crafting of strategy.*

Once the information has been prepared, it should be used to model and analyse value generation.

## 3.4 Impact on value is analysed

### 3.4.1 Objective

The objective of this principle is to simulate different scenarios and models that demonstrate the potential cause-and-effect relationships between inputs and outcomes.

The focus of this principle is on the interaction between management accounting and the business model. By modelling the impact of opportunities and risks, the effect on strategic outcomes is quantified, and the likelihood of a given outcome to generate, preserve or destroy value is assessed.

Management accounting uses relevant information (see 3.3) to develop simulations. The effort in assessing simulations should be proportionate to the importance of the decision being made.

*NOTE Some simulations might be simple and take very little time while others might need to be sophisticated and consider more complex factors.*

This principle therefore also requires an understanding of the business model and the wider macroeconomic environment. It involves analysing information along the value-generation path, evaluating opportunities, and focussing on the risks, costs and value-generation potential of opportunities.

### 3.4.2 Simulations provide insight into options

Simulations brings rigour to the evaluation of organizational decisions. By running simulations (e.g. scenario models, pareto analysis, or Monte Carlo) to evaluate the impact of particular opportunities and risks, organizations make more informed decisions about exploiting or mitigating them.

These simulations enable organizations to quantify the likelihood of an opportunity succeeding or a risk occurring and the value that is to be generated or eroded.

Simulations should consider the external environment in which organizations operate – notably the competitive, regulatory and macroeconomic landscapes. The analysis should also incorporate behavioural issues, such as knowledge about the cost drivers, risks and value. When information is provided about the long-term availability of required resources, the business model can be assessed for its relevance to and resilience in the market.

### 3.4.3 Actions are prioritized by their impact on outcomes

Management accounting turns information into insight by analysing the impact on outcomes of decisions being considered. These options have different impacts on the organization's costs, risks and value (e.g. insight from simulations illustrates the trade-offs between one option and another, and allows opportunity costs to be factored in to decisions).

Management accounting prioritizes actions using logic from simulations, which is used to justify the recommended action to be taken. An understanding of the organization's strategic aims, stakeholder needs and agreed targets supports the prioritization of actions by value rather than cost.

*NOTE Scenario simulation is just one example of a tool that may be used.*

## 3.5 Stewardship builds trust

### 3.5.1 Objective

The objective of this principle is to protect the financial and non-financial assets, reputation and value of the organization through the active management of relationships and resources. The responsible planning and management of resources provides continuity and availability for future generations.

Relationships give organizations access to resources. Trust is the bedrock of relationships, whether between colleagues or between organizations and customers, investors, suppliers and wider society.

*NOTE 1 Being mindful of conflicting interests improves stakeholder management, and is an important consideration when prioritizing stakeholder groups.*

This principle therefore requires being alert to potential conflicts of interest and not putting personal or short-term commercial considerations before the longer-term interests of the organization or its stakeholders. It requires management accountants to behave with (and to encourage colleagues to behave with) integrity, objectivity and to constructively challenge any decision that does not align to corporate values.

The letter and the spirit of legislation, codes and regulations should be followed. Behaviour that falls short should be immediately challenged and escalated to the relevant authority; whistle-blowing needs to be undertaken if required.

*NOTE 2 Deep-rooted or long-held assumptions may need to be challenged as a result of the critical thinking and data interrogation that management accounting involves.*

Management accountants should align their actions with the organization's strategy. The organization's values can provide a filter for decisions.

*NOTE 3 Work is undertaken scrupulously and commitments are kept. Every effort is made to avoid providing information that may be misleading or open to misinterpretation.*

### 3.5.2 Accountability and credibility

Management accountants are answerable for the decisions they are involved in making.

Being held accountable for decisions can reduce the risk of reckless or poor decisions being taken. Management accountants commit to objectively balancing the needs of different stakeholders involved in the decision-making process, and addressing questions from any individual or group that can affect, or who are affected, by the decision.

Proactively seeking feedback and being responsive to questions or complaints facilitates scrutiny by those with an interest in the organization's performance. This can help improve trust in, and credibility and legitimacy of the organization, and have a positive impact on improving processes and reputation.

### 3.5.3 Sustainable organization

Sustainable organizations achieve short-, medium- and long-term economic performance while generating value for society and minimizing their environmental impact.

Management accounting aligns sustainability activities with strategy by linking them to business drivers and the business model. It provides decision-makers with information about sustainability factors so that these are integrated into business planning and reporting. Economic, environmental and social risks are identified using a systematic methodology (e.g. PESTEL).

Long-term resilience requires an organization to adapt to the impending depletion of scarce resources. It is important for the organization to recognize and aim to minimize any negative impact that its activities have on society and the environment, e.g. reduce its carbon footprint and reliance on finite resources, and consider diversification of income streams to build relevant skills.

An organization's economic activity relies, and impacts, on external factors (e.g. natural capital scarcity, climate change and population growth). It is increasingly important for instance, for organizations to understand the true cost of choices and factor those into decisions.

## 4 How to apply management accounting principles

### 4.1 People

**4.1.1** The management accounting principles set out in Clause 3, provide a direct line of sight between an organization's objectives, its people and the practices of management accounting. They are applied to what management accountants are expected to do at work and so can impact an organization's performance (see Clause 5) and management accounting practices (see Clause 6).

**4.1.2** Management accountants should be objective, ethical and consider public interest. They should help colleagues to overcome bias by rooting organizational decision-making and implementation in an evidence base, and by providing empirically tested, objective solutions, wherever possible.

Management accountants should pay due regard to the primacy of the organization's customers and the range of relationships that enable a business to operate. They also should understand the global macroeconomic environment to assess information based on its relevance to their organization.

**4.1.3** By working across functions, management accountants understand the links between operational activity, financial resource generation and consumption, and value generation and preservation. Their role should support organizational performance through creating plans and monitoring execution. To support this, the organization should require management accountants to pursue continuous learning, and professional development.

The core competencies for management accountants are:

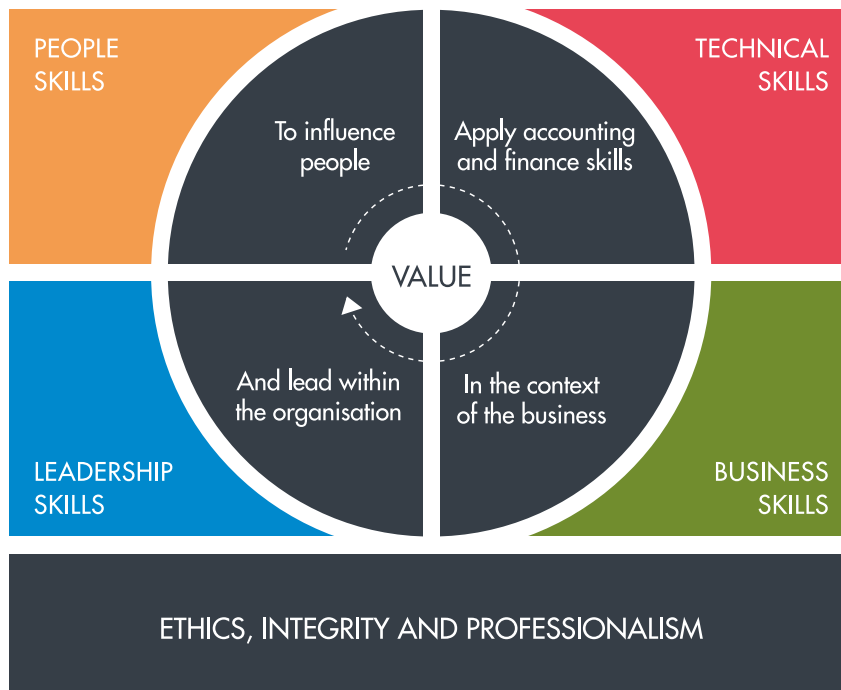
- a) technical – applying accounting and finance skills;
- b) business – ensuring these technical skills are applied in the context of the business;
- c) people – influencing the decisions, actions and behaviours of others; and
- d) leadership – leading the organization at different levels.

***NOTE** These four areas are taken from the CGMA Competency Framework. The framework is depicted pictorially (see Figure 2) and highlights the range of skills of management accountants, placing importance on both technical and soft skills.*

An organization should identify and record a series of skill sets for each competency identified, that can be used to assist professional development in all four key competency areas.



Figure 2 – CGMA Competency framework



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**4.1.4** The organization should assess and record the proficiency of management accountants in each required competency using four levels:

- a) foundational;
- b) intermediate;
- c) advanced; and
- d) expert.

**NOTE** For example, further details for each level can be found at: <http://www.cimaglobal.com/Study-with-us/CIMA-Professional-Qualification/Syllabus-and-assessment/> [5].

**4.1.5** A combination of accounting and financial expertise, business understanding, analytical skills and business experience means that management accountants can be practical and grounded in operational reality.

Providing evidence in the form of financial reports, management information and analysis is the traditional role of accountants in decision-making. By communicating insight and analysis in a compelling way, their role expands so that relevant information is considered before a decision is made. The expected outcomes of decisions also should be explained in a way that allows the decisions to be implemented. Management accountants then measure progress and manage performance through to the intended outcome.

**4.1.6** The role of management accountants is broadening as they contribute insight and exercise more influence in the organization. In doing this, their contribution to the organization shifts from technical skills to commercial skills.

**NOTE** Figure 3 shows the link between the role of management accountants and the management accounting principles; technical information on the left hand side is analysed for impact on organizational aims and is communicated with influence on the right hand side.



Figure 3 – Role of management accountants



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## 4.2 Performance

**4.2.1** The management accounting principles are applied by people to the management of organizational performance and to the practices of the management accounting function. The components of performance management should include:

- strategizing (see 5.2.1);
- planning (see 5.2.2);
- executing and reporting (see 5.2.3); and
- reviewing and refining (see 5.2.4).

**4.2.2** An organization's strategy sets out corporate objectives which are implemented through the business model. The business model explains how value is generated, delivered and preserved.

**NOTE** See Clause 5 on how performance management may be applied to the management accounting principles.

The goal for those who lead organizations is to continue to generate value for stakeholders over time. To do this, the business model should be agile and resilient.

**4.2.3** Value is generated by developing relationships that give access to resources and by converting those resources into outputs that are valuable to an organization's customers. This incurs costs and the link between incurring costs and generating value is mediated by risks (2.25).

An organization might have relationships that it leverages to give it access to resources. Other relationships might give it access to markets. Success depends on the appropriate prioritization of these relationships, resources and the management of associated risks. Adherence to the management accounting principles facilitates this prioritization.

**NOTE** See Clause 6 for the main practice areas of the management accounting function.

## 5 Management accounting principles and performance management

### 5.1 General

To achieve sustainable success, organizations should identify and exploit opportunities to generate value for stakeholders while pro-actively managing costs and risks.

To do this, managers participate in and oversee performance management. Table 1 shows how performance management should be used to develop, deploy and refine the execution of strategy. Feedback loops embed continuous improvement in all aspects of an organization's performance and enable casual learning. Feedforward loops use planning and forecasting to anticipate deviations from plan so that managers can take corrective action.

*NOTE 1 Table 1 highlights some of the questions that might be considered when applying the management accounting principles to performance management.*

*NOTE 2 Knowing the reasons why past actions did or did not work well allows organizations to repeat one and avoid the other.*

**Table 1** – Application of the management accounting principles to the components of performance management

Management accounting principle	Strategizing (see 5.2.1)	Planning (see 5.2.2)	Executing and reporting (see 5.2.3)	Reviewing and refining (see 5.2.4)
Communication provides insight that is influential	<p>Are internal and external stakeholders identified?</p> <p>Are the connections between their interests and influences and the organization's purpose clear?</p> <p>Is it clear how the strategic objectives represent the organization's purpose?</p> <p>How do stakeholder groups engage in the strategy conversation?</p> <p>How are risks to the achievement of strategic objectives communicated with key stakeholders?</p>	<p>How is the connectivity of initiatives and processes with strategic objectives communicated?</p> <p>How are people's jobs aligned to initiatives and processes?</p> <p>Is there line of sight between what people and teams do and strategic objectives?</p>	<p>Are results communicated according to stakeholder needs?</p> <p>Are results communicated in terms of their impact on strategic objectives?</p> <p>Are results accessible?</p>	<p>Does management information include an assessment of forecast performance?</p> <p>Does management information include a review of the effectiveness and efficiency of initiatives and processes?</p> <p>Does management information include the evaluation of alternative options?</p> <p>Does management information include post-implementation reviews?</p>

**Table 1** – Application of the management accounting principles to the components of performance management  
(continued)

Management accounting principle	Strategizing (see 5.2.1)	Planning (see 5.2.2)	Executing and reporting (see 5.2.3)	Reviewing and refining (see 5.2.4)
Information is relevant	<p>Is the external environment considered (e.g. the competitive scene, economic landscape, regulatory and legal frameworks)?</p> <p>Is the strategic position in the organization identified and quantified, (e.g. market share, availability of resources, and assessment of competencies)?</p> <p>Are key measures of success agreed?</p> <p>How does the data plan support performance management?</p> <p>Are key risks and their mitigations identified?</p>	<p>Does the business plan also have a data plan so that initiatives and processes are reliably assessable upon execution?</p> <p>Is the management information system defined and approved by the business's users?</p>	<p>Is the management information system built and ready for decision-support?</p> <p>Does the organization have ready access to real-time information about financial and non-financial results?</p> <p>Are early warning indicators for quick corrective actions in place?</p>	<p>How does management information inform decisions on:</p> <ol style="list-style-type: none"> <li>execution and monitoring;</li> <li>refinement;</li> <li>future plans; and</li> <li>future strategy.</li> </ol>
Impact on value is analysed	<p>Are strategic options evaluated in the context of the organization's strategic position and the key risks?</p> <p>Is the customer-value proposition compelling?</p> <p>Is the business model competitive and agile?</p>	<p>Are planned options validated through research, simulation, and testing for their impact on required outcomes?</p> <p>Are options prioritized, planned and resourced based on efficiency and impact on required outcomes?</p> <p>How do options take account of their associated risks?</p>	<p>Is the implementation of options coordinated and systematic?</p> <p>How does the risk management system reduce the likelihood of unwanted outcomes or their impact on the implementation of options?</p>	<p>Are results analysed against simulations?</p> <p>Does the organization use this analysis to continuously improve the business model?</p> <p>Is analysis used to improve forecast accuracy?</p>

**Table 1** – Application of the management accounting principles to the components of performance management (continued)

Management accounting principle	Strategizing (see 5.2.1)	Planning (see 5.2.2)	Executing and reporting (see 5.2.3)	Reviewing and refining (see 5.2.4)
Stewardship builds trust	<p>Are the organization’s values stated and available to all internal and external stakeholders?</p> <p>Are different stakeholders interests in conflict?</p> <p>Are environmental factors considered during investment appraisal?</p> <p>Is reputational risk considered during strategic decision-making?</p>	<p>Are relevant employees and business partnerships made aware of their accountability for plans?</p> <p>Are critical thinking and challenge encouraged as plans are being created?</p> <p>Are plans made available on a timely basis, for relevant scrutiny, by those who might be affected?</p> <p>Is the impact on long-term value considered when decisions about short-term activity are made?</p>	<p>Does the organization have a robust internal audit function and is a control environment fostered?</p> <p>Are the relevant stakeholders made aware of any breaches to standards in a timely manner?</p> <p>Are organizational values monitored in the execution of the strategy?</p>	<p>Do employees proactively seek feedback?</p> <p>Are audit trails maintained and is documentation made available for scrutiny?</p> <p>Are individual performance targets pegged to long-term value generation rather than short-term outcomes?</p>

## 5.2 Performance management

### 5.2.1 Strategizing

An organization’s strategy articulates its purpose, long-term objective, and how it expects to achieve it. The strategy considers the external environment, including the competitive, economic, regulatory and legal landscapes. This means the organization’s strategic position, options, risks and implementation may be fully assessed.

Effective performance management is enhanced by trusted and relevant information. The organization should identify and record measures for assessing performance and develop a data plan (see 5.2.2.2) for the purpose of making the information for these measures available during executing and monitoring (see 5.2.3).

### 5.2.2 Planning

#### 5.2.2.1 General

Plans are statements of intent; to execute them, the organization should provide:

- a) the required resources;
- b) the enabling processes through which the resources can be converted into outputs; and
- c) the means of monitoring activity to check that targets are achieved.

A vital element of plans is data planning, and achieving the “information is relevant” management accounting principle (see 3.3).

Planning for an organization’s data needs when its strategy and business plans are created allows organizational performance to be assessed as plans are implemented. Data-driven, real-time decision-making (whether and how to refine, stop or start activity) then becomes possible.

### 5.2.2.2 Data plans

Data plans should cover the entire business model and should, therefore include financial, non-financial and hybrid (e.g. cost/unit) data in a structured and controlled environment.

In addition to data on actual results, measures themselves might require data relating to forecasts, budgets and benchmarks. Too often organizations measure what they are able to or what they have measured historically, rather than what is needed to evaluate the execution of future plans (which might be different from past plans). The primary purpose of the data plan is that the data needed for an organization's planned input, activity, output and outcome measures is readily available and accessible to internal stakeholders.

Data planning is important because decision-makers should have the relevant data in order to assess performance. This data needs to be trustworthy, timely, and relevant to the decision that needs to be made.

The data plan should include details of the information technology needed to support the cost-effective sourcing, assembling, refining and presentation of data. Data should be structured to incorporate all elements of the business model – input, activities, outputs and outcomes. Table 2 defines the key features of a data plan.

**Table 2** – Data plan key features

Key feature	Description
Explicitly linked to organizational objectives	Focused on users and accepted by them. As decision-makers, users should be able to explain clearly why specific data is required to measure strategy execution. Information should then be stored securely and presented in a meaningful way.
Rigorously prepared	Data should be sourced, cleansed and assembled, with data presentations agreed by users early enough to allow performance to be evaluated as planned initiatives are implemented.
Supports decision-making	Comprises the measures defined and accepted by users at the time of planning to enable them to evaluate execution and make decisions. Data should be triangulated where possible.
Readily accessible and intelligible to users	Users should be able to access the data easily to evaluate performance and future options.
Secure	Sensitive information should not be leaked.
Comprehensive	The lowest level of granularity should be easily accessible (by the user) from the highest levels of aggregation to support the different levels of activity and review needed.
Consistently defined and labelled	"One version of the truth". Data labels should be in plain language, without jargon or obscure database field descriptors. Measures should be defined and described consistently across the organization. <i>NOTE For example, a measure dictionary is a useful means for consistent interpretation across the organization.</i>
Resilient to change and adaptable	The business model should be refined over time to match change in the external environment.
Efficient	There might be occasions when the cost of sourcing, assembling, refining and presenting data for a measure outweighs the benefits. In this case, decision-makers should: <ul style="list-style-type: none"> <li>a) explicitly agree not to measure execution using data; or</li> <li>b) break down the measure into lower-level measures that provide partial information; or</li> <li>c) agree a proxy measure (one that is closely enough related to the ideal measure to derive a performance assessment).</li> </ul>

### 5.2.3 Executing and reporting

Execution involves the timely provision of resources and the best management processes to drive the actions needed to meet the organization's objectives. It takes place via an organization's business model.

The business model is interconnected with both the external environment and the organization's governance system. Consequently, political, economic, social and technological factors require strategic consideration. During execution, competitive forces are often at play, providing a context laden with risks and opportunities, within which stakeholders' expectations need to be met or exceeded.

At this stage, real-time results are monitored, recorded and checked against targets and management reports are produced for relevant decision-makers.

### 5.2.4 Reviewing and refining

Reviewing and refining involves analysing the results and forecasts of initiatives and processes as plans are executed and monitored. This feedback loop is necessary for the continuous refinement of plans that drive strategic objectives. It also informs decision-makers on the efficiency, effectiveness and efficacy of initiatives and processes, enabling decisions to be made to improve future plans.

This might sometimes require relatively minor alterations to the portfolio of initiatives and processes; the organization can continue with the (refined) execution of these.

However, reviews might sometimes highlight the need for more fundamental change, including stopping some activity, rebalancing how activities are prioritized, or they might provide insight about the deployment of new initiatives. This could mean the need to review plans or even have a fundamental rethink about strategy. Having performance management feedback enables organizations to learn from results, facilitating future improvements.

Whether explicitly referred to as strategizing, planning, executing and monitoring, and reviewing and refining or not, most organizations employ some form of a 'plan-do-check-act' process to manage the execution of their strategy. Management accounting as a discipline is well placed to oversee this performance management cycle in organizations. Relevant information, simulations, effective communication and strong stewardship are vital to decisions that continuously refine the execution of strategy.

The type of information, level of analysis, style of communication and the stewardship focus needed varies. At every stage, however, the management accountants may add value to the performance management process (see Table 1).

## 6 Applying management accounting principles to core practice areas

Extracting value from information is a key source of advantage for organizations. The principles provide Chief Finance Officers (CFOs) and boards with a framework for doing this. Figure 4 illustrates the roles and responsibilities of the management accounting function.

Management accounting makes a contribution across the organization and its principles apply universally.

In Clause 5, the principles are applied to the development, planning, execution and monitoring, and reviewing and refining of strategy. In this section, they are applied to the key activities of effective management accounting functions, which are mostly undertaken in the areas in the four top boxes in Figure 4 (technical expertise, external reporting, management information, and performance management).

The finance-specific duties of CFOs include responsibility for raising funds, using funds and reporting on how funds are raised and used in the pursuit of achieving the organization's objectives. The key practices of the management accounting function therefore encompass, though are not limited, to the areas listed in Table 3.

**NOTE 1** Internal audit is also included (see A.15). It is not a practice area that sits within the management accounting function, but it involves the testing of controls that are often designed and implemented by management accountants. Internal reporting is not separated out as a discrete area of practice because it is implicit in the application of the principles to all practices.

**NOTE 2** It is important to note that an effective management accounting function not only performs each practice well in isolation, it is also one that shares knowledge and information between areas and whose teams work collaboratively.

Table 3 defines the core practice areas of the management accounting function, and the contribution the management accountants should make to each area.

**NOTE 3** Annex A outlines each core practice area and how the management accounting principles may be applied.

**NOTE 4** There are many tools and techniques available to assist management accountants with their practice areas. They are not detailed in this document and none are prescribed because organizations might select and regularly review the approaches that are most appropriate for their needs.

**Figure 4** – Roles and responsibilities of a management accounting function



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Table 3 – Core practice areas of the management accounting function

Practice area	Definition	Value to the organization	Contribution of the management accountant to the practice area
Cost transformation and management (see A.2)	The sustained identification and reduction of waste across the organization while freeing up resource to invest in innovation that drives future value for stakeholders.	Improved customer satisfaction through the provision of product and service value for money. Increased organizational competitiveness and increased stakeholder value, achieved through the establishment of a lean culture and investment in innovative products and services.	Understands the cost drivers across the organization. Aids the improvement of value-chain efficiency. Develops cost targets in conjunction with relevant parts of the business.
External reporting (see A.3)	The provision of an integrated and comprehensive view of the organization's strategy, business model, and performance which together forms the basis for an effective assessment for external stakeholders.	Helps the organization to engage with a wide stakeholder base and explain the organization's strategy, business model and performance.	Encourages the organization to consider reporting as a value-creating activity that is driven by integrated thinking. Reports information that is regularly presented to the board of directors in the context of strategic targets. Ensures that reports comply with regulation and governance.
Financial strategy (see A.4)	The identification of the possible strategies capable of maximizing an entity's net present value, the allocation of scarce capital resources among the competing opportunities and the implementation and monitoring of the chosen strategy to achieve stated objectives.	Value of the organization is optimized for owners and other stakeholders. Organization's capital requirements are balanced with expectations of owners and other stakeholders. Investment opportunities are thoroughly appraised, robustly implemented and appropriately governed.	Sources funds efficiently. Appraises investments. Designs and implements dividend policy. Controls working capital. Optimizes capital structure.



Table 3 – Core practice areas of the management accounting function (*continued*)

Practice area	Definition	Value to the organization	Contribution of the management accountant to the practice area
Internal control (see A.5)	A documented framework of policies, systems, processes and procedures for managing risks to value generation and preservation, the efficient and effective implementation and operation of the framework and the reporting on and supervision of the framework.	Provides reasonable assurance that tangible and intangible assets are safeguarded and financial and non-financial resources are correctly accounted for.  Reduces the risk of error and fraud and the likelihood of financial loss, thereby enhancing trust in an organization's financial stewardship. This leads to reliable reporting, which in turn enables sound decision-making and better financial management.	Manages, supervises and reports on the framework of systems, processes and procedures that provide confidence in the safeguarding of resources.
Investment appraisal (see A.6)	The assessment of whether or not to pursue a particular investment based on alignment with strategy, prioritization of options, affordability and acceptable returns versus unacceptable risks.	Prioritizes opportunities for funding that generate value for stakeholders and avoids those which are likely to erode value.	Performs relevant calculations and analysis to determine the quantifiable value to the organization of pursuing a particular investment.  Understands all the risks that need to be factored into the appraisal.  Provides real options to decision-makers about which opportunities can be exploited or avoided.

Table 3 – Core practice areas of the management accounting function (continued)

Practice area	Definition	Value to the organization	Contribution of the management accountant to the practice area
Management and budgetary control (see A.7)	The system of developing and validating targets and thereafter controlling performance against those targets at all levels of the organization, which might include projects, people, activities, processes, sales volumes and revenues, resource quantities, operating costs and expenses, assets, liabilities and cash flows, as well as other non-financial measures and outcomes.	Help organizations evaluate performance against targets and take improvement actions. Provides a means for accountability and control to be decentralized, so that performance can be proactively managed by those managers closest to the execution of planned activity.	Monitors and reports financial and operational performance against planned targets.
Price, discount and product decisions (see A.8)	Deciding what to produce or what service to provide and determining the selling price and discount structure for products and services.	Enhances profitability of products and services and helps organizations position their products and services within their target market.	Analyses the market to set target prices, and cost. This optimizes product, customer and channel profitability/value for money. Understands which cash flows are relevant for inclusion in calculations to determine prices. Knows the business model and where a particular product or service fits within it, aiding market positioning. Translates complex numbers into understandable recommendations to facilitate decisions about the allocation of funds to specific products and services.
Project management (see A.9)	Integration of all aspects of a project, so that the proper knowledge and resources are available when and where needed and above all, to ensure that the expected outcome is produced in a timely, cost-effective and quality controlled manner.	Provides controls over projects to increase the chance of benefits from projects being realized and risks minimized.	Provides financial scrutiny to project plans, budgets and spending. Ensures projects are adequately resourced and that their purpose fits with the organization's strategic priorities. Communicates project processes and performance to get effective buy-in from relevant stakeholders.

Table 3 – Core practice areas of the management accounting function (*continued*)

Practice area	Definition	Value to the organization	Contribution of the management accountant to the practice area
Regulatory adherence and compliance (see A.10)	The fulfilment of statutory and regulatory obligations in relation to accounting, statutory reporting, tax and other regulatory compliance. The objective is to prevent penalties and other enforcement activity and promote the reputation of the organization for good corporate citizenship.	Helps to preserve value and mitigate losses through avoiding the direct and indirect costs of enforcement activity.	Monitors the regulatory landscape to understand current and future developments and their potential impact on the organization. Calculates and assesses the costs of compliance and non-compliance. Ensures the organization approaches compliance within both the letter and spirit of the law.
Resource management (see A.11)	The consideration of the priority of resource availability in the context of organizational decision-making. It helps organizations to efficiently and effectively manage transformational or continuous improvements to products and processes. It involves the alignment of resources, systems and employees to strategic objectives and the organization's priorities.	Helps organizations to manage transformational or continuous improvements to products and processes, efficiently and effectively.	Gives due consideration to the priority of scarce resource availability. Produces resource maps that highlight requirements, returns and options. Understands the opportunity costs and comparative advantage impacts of differing resource allocations.
Risk management (see A.12)	The process of identifying, assessing and responding to uncertainty arising from setting and achieving the organization's objectives to support the delivery of its strategic objectives.	Awareness and management of these risks can help the organization address uncertainty by increasing the probability of success and reducing the probability of failure in executing its strategy and meeting stakeholder expectations.	Identifies the risks and advises on appropriate responses that are relevant and proportional to the size of risk, organization and its environment. Embeds risk management within their thinking and considers it alongside planning and performance. Supports non-finance colleagues to assess the probability and impact of all organizational risks to determine appropriate responses.

Table 3 – Core practice areas of the management accounting function (continued)

Practice area	Definition	Value to the organization	Contribution of the management accountant to the practice area
Strategic tax management (see A.13)	The role of tax in financial analysis and decision-making while proactively managing the organization's tax position so that legal requirements and ethical standards are met.	The organization is aware of and understands the implications of relevant tax legislation in the jurisdictions in which it operates.	<p>Advises on transfer pricing policy.</p> <p>Provides impact analysis of tax issues on mergers and acquisitions.</p> <p>Calculates the tax implications on capital investment decisions.</p> <p>Acts as an ethical conscience of the organization.</p>
Treasury and cash management (see A.14)	The tactical and strategic handling of all financial matters impacting the business including: the generation and deployment of funds for business and investors, sourcing funding internally, from banks, capital markets and specialists; the management of currency, interest rate, liquidity and other risks, and cash management.	<p>The organization has sufficient cash to meet its obligations and fund prioritized opportunities.</p> <p>Provides risk management of the organization's exposures to currency fluctuations.</p>	<p>Provides information from the balance sheet and cash flow statements as required by treasury colleagues.</p> <p>Produces accurate cash flow forecasts.</p> <p>Manages financial risk.</p>
Internal audit (see A.15)	The provision of independent assurance that an organization's risk management, governance and internal control processes are operating effectively.	<p>Provides assurance that key financial and non-financial risks, including reputational, environmental and social risks, are being adequately controlled by the organization and its long term value is protected.</p> <p>Internal auditors assist the external auditors with their procedures.</p> <p>It is a systematic approach to evaluating and improving the effectiveness of risk management, control and governance processes.</p>	<p>Facilitates the efficient delivery of assurance by providing cost-benefit analysis for the internal audit and control functions.</p> <p>Encourages continuous appraisal and revalidation of accounting and internal control systems.</p>

# Annex A (informative)

## Management accounting principles and core practice areas

### A.1 General

This Annex demonstrates how the management accounting principles can guide the core practice areas of the management accounting function outlined in Clause 6.

**NOTE 1** *The following lists may be used to assess the effectiveness of the organization's current management accounting function, but is not intended to be prescriptive or exhaustive.*

**NOTE 2** *An example online diagnostic tool can be found at [www.maprinciples.com/assess](http://www.maprinciples.com/assess).*

### A.2 Cost transformation management

#### A.2.1 Communication provides insight that is influential

- a) Cost targets are discussed and developed in conjunction with colleagues and business partnerships to gain buy-in and are refined over time.
- b) Plans for execution of approaches are agreed with relevant employees and business partnerships.
- c) Cost plans are broken down into components appropriate to the various stakeholders.
- d) Reports are produced on how well cost management approaches are rolled out across the organization.
- e) The cost drivers are analysed and discussed with relevant employees and business partnerships so that they can be effectively managed in future.

#### A.2.2 Information is relevant

- a) Cost drivers are known and recorded.
- b) Cost driver measure results for every component of the end-to-end business model are compared over time.
- c) Costs are compared with equivalent costs from comparable organizations.
- d) Asset use is compared over time and with best-in-class benchmarks.
- e) Costs from previous years at aggregate, departmental/functional and product level are known and compared.
- f) Costs to include and reflect explicitly expenses incurred on environmental abatement and social programs.

#### A.2.3 Impact on value is analysed

- a) Relevant data models are used and value generation processes refined to estimate the impact of processes on outcomes.
- b) The business model is challenged and assessed for cost effectiveness.
- c) Performance measures for cost drivers are developed or refined across the components of the business model. The impact of cost drivers on key results is calculated to understand value generation and preservation.
- d) Through interpretation of the value drivers across the business model and value chain, approaches are designed to improve cost outcomes.
- e) Rational but stretching cost targets are developed.
- f) Value chain efficiency is compared over time.
- g) Cost transformation processes are regularly reviewed so that activities continue to be relevant to stakeholder needs.

#### A.2.4 Stewardship builds trust

- a) Employee incentives are designed that drive alignment of behaviours with organizational objectives and projected future needs.
- b) Compliance is always maintained with internal policies and procedures and, as required, other relevant legal and regulatory obligations.
- c) Opportunity costs are calculated and recommended approaches are developed on the basis of net value to the organization.

### A.3 External reporting

#### A.3.1 Communication provides insight that is influential

- a) External reports are used as an opportunity to engage with the wider stakeholder base and explain the organization's strategy, business model and performance.
- b) Information reported externally includes material regularly presented to the board of directors in the context of strategic targets (e.g. how a strategic execution is being measured by the trend in a key performance indicator).

- c) Communications are designed and implemented primarily to address providers of financial capital. They also recognize the legitimate needs of other stakeholders such as employees, customers, suppliers, business partnerships, local communities, legislators, regulators and policy-makers.
- d) Externally reported information has been presented and approved throughout the organization's designated hierarchy prior to public exposure.
- e) Information to be communicated is material and presented in a clear, concise, well-defined and transparent way, where possible avoiding repetition and jargon.
- f) Reports meet all required and expected deadlines and are designed to deliver factual, accurate, verified, mandated and relevant information to all identified stakeholders on a timely basis.
- g) All relevant communication channels, such as print, online, social media and mobile, are considered and used if appropriate.

#### A.3.2 Information is relevant

- a) The organization's external reporting meets the needs of investors and other stakeholders. It contains clearly communicated information on governance, the business model, strategy and performance and supports effective company stewardship.
- b) The organization's external reports contain trends over a suitable time frame (e.g. past, present and future).
- c) The information is relevant and faithfully represents what it purports to represent. The information is comparable, verifiable, timely and understandable.
- d) The inter-connectivity of the data being reported is managed so that the objectives of external reporting are achieved.

#### A.3.3 Impact on value is analysed

- a) External reporting is viewed by the organization as more than a required and mandatory function. An organizational attitude is prevalent which views reporting as a service that provides value-generating opportunities, driven by integrated thinking that meets and exceeds stakeholders' expectations.
- b) External reporting is compliant with the appropriate accounting standards and regulations required for the organization. This includes regulatory/statutory reporting, tax returns and other required submissions.

- c) In addition to the reporting of financial performance, the organization considers and reports its impact on the wider economy, society and the environment.

#### A.3.4 Stewardship builds trust

- a) Awareness of regulatory and compliance reporting practice is maintained and actively practiced in the organization.
- b) The organization seeks appropriate levels of assurance both internally and externally to ensure completeness, accuracy and integrity of the information reported.
- c) External reports are prepared to comply with all relevant regulation, accounting standards and governance codes in the reporting jurisdiction.

### A.4 Financial strategy

#### A.4.1 Communication provides insight that is influential

- a) For commercial organizations: past, present and forecast performance is regularly communicated openly and comprehensively to markets.  
*NOTE This aims to secure the trust of regulators and the trust and loyalty of existing and potential investors, lenders, suppliers, customers and employees.*
- b) For governments and not-for-profit organizations: open and regular communication with their stakeholders (including legislative bodies, taxpayers, grant providers, donors, beneficiaries, regulators and society) helps to ensure organizations continue to provide relevant and valued public services with value for money considerations at the heart of decision-making.

#### A.4.2 Information is relevant

- a) Organizations, whether commercial, governmental or not-for-profit, face three key decisions, the first two of which relate to all organizations, regardless of their size or sector:
  - 1) Investment – what projects are to be undertaken by the organization?
  - 2) Finance – how are the necessary funds to be raised?
  - 3) Dividends – how much cash is to be allocated each year to be paid as a return to shareholders, and how much is to be retained to meet the cash needs of the business?

- b) Commercial organizations compete for capital at the lowest possible cost in increasingly globalized and volatile capital markets. Managers run commercial entities to ensure their organizations are in a strong position to attract the debt and equity capital they need for the sustainable generation of shareholder wealth. In competitive markets (and often across multiple countries) managers have a good understanding of information relating to:
- 1) sector shareholder return characteristics;
  - 2) shareholder relations;
  - 3) sources of finance;
  - 4) creditworthiness;
  - 5) gearing/financial leverage; and
  - 6) debt covenants.
- c) Commercial, government and not-for-profit managers have a good understanding of information relating to:
- 1) macroeconomic indicators (e.g. inflation, productivity, GDP, interest rates, exchange rates);
  - 2) government policy (e.g. employment, regional investment encouragement, inflation, tax, exchange controls, competition, trade, market entry); and
  - 3) socio-political factors, such as demographic changes that might impact on the cost or delivery of services (e.g. healthcare), and changes in political models in countries or regions that might impact on the security or stability of assets, existing or future market opportunities or resources deployed.

#### A.4.3 Impact on value is analysed

For commercial entities the impact of decisions on shareholder value are modelled and understood. They are assessed with measures such as:

- a) earnings, or earnings per share (EPS);
- b) share price appreciation;
- c) free cash flow;
- d) market share;
- e) customer satisfaction; or
- f) return on assets (ROA).

Governments aim to optimize the use of their resources in realizing their strategic objectives, whilst ensuring value for money. Not-for-profit entities operate to deliver benefits for a defined group or groups of people. The benefits they provide are constrained by the funding available (e.g. through government spending allocation, charitable donations, grants, recycling of assets and limited commercial activity in markets outside of government). This makes it a fundamental objective to deliver benefits that meet the needs of the user, to the standards required and at the lowest possible cost. Value for money (VFM) is therefore vital. A key challenge is determining what value represents; for example, how best to allocate resources based on the value of saving a life is a question public health providers and charities could face. Absolute measures of VFM are problematic, but there are ways of gauging this, including:

- a) customer satisfaction trends;
- b) cost per satisfied customer trends; and
- c) cost per benefit trends.

Benchmarking, if used carefully, can be a useful way of gauging VFM. However, benchmarks can be difficult to achieve in some public sector entities. This is particularly true where the entity has a monopoly, or where the objectives of the entity are not comparable to those held by other entities.

*NOTE Example techniques have been developed that may help determine VFM, for example Outcome Cost-Effectiveness Analysis (OCEA) and Public Service Value Model (PSV).*

#### A.4.4 Stewardship builds trust

- a) Governance structures and processes meet the needs of stakeholders.
- b) Financial strategy is transparent to stakeholders.
- c) Strategy implementation and control processes and procedures are effective (see A.5).
- d) Post-completion audits are carried out and findings shared with individuals responsible for governance.
- e) Lessons are learned and recommendations acted upon.



## A.5 Internal control

### A.5.1 Communication provides insight that is influential

- a) Control policies and procedures are published and shared with all employees so that they can use them in their areas of responsibility.
- b) Outcomes of control system reviews are shared with employees to enable better decision-making and effective action.
- c) Information about incidents of control failure (e.g. errors or fraud) is reported to employees for investigation, correction and/or lessons learned.
- d) The frequency of monitoring and reporting is matched to the speed of the activities and processes that are most at risk.
- e) The level of detail at which operating performance and position are to be reported (e.g. trends, comparisons, variance analysis is matched to the responsibilities of appropriate employees).

### A.5.2 Information is relevant

The following information is understood and documented:

- a) Nature, extent, likelihood and impact of risks that the organization faces.
- b) Organizational capacity and appetite for those risks.
- c) Results of tests on relevance and effectiveness of control policies, processes and procedures.
- d) Plans, budgets and forecasts of organizational activities.
- e) Quantity and quality of resources to accomplish organizational objectives.
- f) Delegations and authorization limits for employees at various levels.
- g) Audit trails of relevant financial and non-financial transactions (non-financial examples include inventory, plant and machinery, work in progress, goods in transit, furnishings and fixtures and buildings).

### A.5.3 Impact on value is analysed

- a) Planning, resource allocation and reporting activities are aligned to generate value for the organization. This helps the organization to decide where its priorities lie and where they are most likely to be at risk.
- b) Controls are regularly revised to align them to the business model of the organization.
- c) The physical and financial processes that pose the most risk to the organization are identified and evaluated (see A.12).

- d) Responsibility for financial controls is assigned to appropriate levels of employees. In general it is the responsibility of the board of directors to ensure that reasonable financial controls are in place. It is the responsibility of management to ensure that the controls are operating effectively; and it is the responsibility of all employees to operate the controls in their areas of work.
- e) The relevance and effectiveness of the controls are regularly tested (see A.15).

### A.5.4 Stewardship builds trust

- a) Appropriate control policies, processes and procedures for areas that are most at risk are developed and implemented. As a minimum these cover:
  - 1) inputs (availability, quality, security and costs);
  - 2) activities that convert inputs into outputs (criticality, flow and efficiency);
  - 3) outputs (quantity, quality, preservation, effectiveness and revenue); and
  - 4) outcomes (impact and sustainability).
- b) Control policies meet legal requirements, are comprehensive and are realistic (i.e. they can be implemented).

## A.6 Investment appraisal

### A.6.1 Communication provides insight that is influential

- a) Real options, including a do nothing option, are considered and provided as alternatives to other investment decisions, and their commensurate risks are discussed.
- b) The results of investment appraisal calculations are presented to decision-makers in a simple and transparent format before the investment decision.
- c) This takes place during the life cycle of the asset and post investment.
- d) Recommendations about the prioritization of investments that are mutually exclusive, and/or are subject to single-period capital rationing, are made and explained.
- e) The approach and basis of the inclusion/rejection of information included in undertaking the appraisal are explained and understood.

### A.6.2 Information is relevant

- a) Investment appraisals are based on analysis and on information which:
  - 1) is internal and external;



- 2) is financial and non-financial (including environmental and social issues);
  - 3) trends over a suitable time frame (past, present and future); and
  - 4) captures the drivers of value (or revenue) and cost.
- b) Investment appraisals are based on cash flow information and sensitivity analysis, which is relevant, accurate, reliable, consistent, complete and timely. Bias is considered and any necessary adjustments are made.
- NOTE 1 For example if revenue projections are considered to be ambitious, they are reduced in the appraisal rather than adjusting the discount factor.*
- c) Appropriate appraisal measures are considered and selected, including net present value, internal rate of return, payback period and return on investment.
  - d) The alternative of using existing resource and assets is considered.
- NOTE 2 For example, whether to make a decision to invest in a new asset when elsewhere in the organization the same or similar asset is under used.*
- e) The technical, commercial, financial and operational feasibility of the proposal are calculated and analysed.
  - f) Alternatives to traditional processes are considered when evaluating innovation projects. These might include stage-gate processes, ring-fenced budgets and portfolio management strategies.
  - g) When the output of an appraisal of a potential investment is to be used for financial reporting purposes, reference is made to the use of discount factors and net present values in International Reporting Standards or local GAAP requirements.

#### A.6.3 Impact on value is analysed

- a) Options are developed and evaluated with due reference to the organization's aims, competitive position and operating and regulatory environment.
- b) The goals of investment projects are understood.
- c) Categorization is used to aid evaluation. Categories might include replacement, expansion, rationalization/productivity, new product development and mandatory requirements.
- d) Alternatives to capital projects, such as renting, sale and leaseback, and outsourcing are considered.
- e) Risk is calculated based on sensitivity analysis, which allows managers to understand by how much the cash flows can vary before the investment is no longer viable.
- f) The time value of money, using appropriate discount factors, is accounted for when appraisals cover investments that span different years.

- g) Discount rates are selected on the basis of the organization's average cost of capital, plus a systematic risk factor applied to future cash flows, depending on the nature of the investment.

#### A.6.4 Stewardship builds trust

- a) Sustainability of resources is discussed with managers to facilitate decisions about whole-life costing and investment appraisal.
- b) Due consideration is given to non-financial information, to inform a holistic cost-benefit analysis of investment decisions. For example, and particularly in a not-for-profit or public sector setting, potential benefits and impacts on society at large might mean a negative net present value investment decision turns positive.
- c) Post-investment audits are carried out and assessments made of the actual benefits realised compared with projected values.

### A.7 Management and budgetary control

#### A.7.1 Communication provides insight that is influential

- a) Consensus-building leads to budgets which are understood and accepted by relevant budget owners.
- b) Budgets drive understanding about why resourcing is allocated in alignment with strategic priorities. They help to convert strategy in to operational action.
- c) Budgeting processes are transparent and consultative. Employees understand that budgets are not produced on the basis of prior year plus inflation or on the basis of spreading funds evenly across the organization. They understand that funds available for investment are committed to key strategic priorities.
- d) Cause and effect between activities and targeted outcomes is communicated to help employees understand how their activities contribute to organizational success.
- e) Measures and targets for activities are cascaded to all levels in the organization to help employees understand how their success contributes to organizational success.
- f) Individuals and teams are engaged with the planning of activity, the agreement of measures and the setting of targets to encourage accountability.

#### A.7.2 Information is relevant

- a) Key strategic priorities are known and understood so that they are efficiently resourced.
- b) Measures are relevant to stakeholder expectations.
- c) Budgets are produced in conjunction with business owners/functional managers.

- d) Performance trends for inputs, outputs and outcomes and relevant benchmarks are tracked to ensure targeted results are competitive and continuously improve.
- e) Past performance provides confidence in the achievability of forecast performance.

#### A.7.3 Impact on value is analysed

- a) The drivers of outcomes are understood in the context of the business model and are themselves managed through targets that correlate with outcome targets.
- b) Performance across the value chain is controlled through relevant measures and targets.
- c) Scenarios on projections of volumes, prices and cost structures are performed to analyse the risks of associated activities and targets. The inclusion of value driver measures and targets are discussed and agreed with managers.

#### A.7.4 Stewardship builds trust

- a) Co-dependencies between the organization's value chain and the needs and contributions of stakeholders are recognized – plans to optimize the value chain take account of these dependencies.
- b) Business managers are expected to provide supporting evidence to back up projections about expected results and to articulate the assumptions on which these projections are made. Data may be triangulated where possible.

### A.8 Price, discount and product decisions

#### A.8.1 Communication provides insight that is influential

- a) Key pricing data is captured centrally and made available in the form of a pricing tool to relevant employees (particularly sales employees). This facilitates critical negotiations. The pricing tool contains information about product volumes, list prices, promotional spending, payment terms and product cost data.
- b) Product or service mix analysis allows evidence-based decisions to be made about the allocation of funds and other resources to specific products or services.
- c) Empirically tested decisions are made about the acceptance or rejection of contracts.
- d) Pricing and cost/benefit comparisons are regularly performed.
- e) Pricing processes are standardized and institutionalized across the organization.

- f) Management accountants are involved in the early stages of new product/service development, so that the new products/services are evaluated for cost/benefit in the context of the organization's existing product/service portfolio.

#### A.8.2 Information is relevant

- a) Relevant cash flows are identified and assessed together with qualitative factors to make decisions about accepting/rejecting contracts, about pricing products and to evaluate cost/benefit comparisons.
- b) Research is commissioned regularly to understand customers' price sensitivity of a product relative to appropriate alternatives.
- c) Customer information databases provide a comprehensive source of all relevant information about customers' past, current and future needs.
- d) Costing of products and services is determined to allow pricing decisions to be made with an understanding of the gross and net profit margins.
- e) Where possible competitor data and pricing actions may be included.

#### A.8.3 Impact on value is analysed

- a) The organization's product or service mix is analysed to show the value of sales, expressed in relation to market growth and market share held.
- b) Management accountants regularly analyse customer, channel and product profitability.
- c) The trade-off between the price a customer pays and the benefit they perceive to gain from a product is known and the customer value of the product is understood.
- d) Multi-product break-even analysis, including profit/volume, contribution/sales ratio and margin of safety are performed where relevant and measurable.
- e) Alternative pricing strategies, and their financial consequences, are considered and tested through financial modelling (e.g. the effects of market skimming, premium pricing, penetration pricing, loss leaders, product/service bundling and product differentiation) to appeal to different market segments.
- f) The risks of product or service repositioning are known and the impacts modelled so that trade-offs between different customer segments are understood.
- g) New product/service introductions are viewed as an opportunity to review prices.
- h) Plans to introduce replacement products include strategies to mothball existing products and services.

- i) Changes to the customers' perceived value of a product or service are always accompanied by a pricing review.
- j) Changes to product or service features have the effect of both retaining existing customers and attracting new ones.
- k) Sensitivity analysis of cost-, volume-, and profit-based decisions is performed and results are modelled.
- l) Multiple limitations on product/service demand and other production constraints are understood for their impact on revenue and profit.
- m) Bottlenecks/areas of underperformance are identified and improvements made.

#### A.8.4 Stewardship builds trust

- a) Unethical pricing practices are avoided and discouraged by senior management.
- b) Incentives are designed to avoid mis-selling.
- c) The organization has audited controls that provide a check and balance on poor decisions or potentially illegal pricing actions.
- d) Calculation and evaluation of the lifetime value of a customer is regularly undertaken.

## A.9 Project management

### A.9.1 Communication provides insight that is influential

- a) Formal communication processes facilitate buy-in from relevant stakeholders.
- b) Regular project updates are provided to all team members and appropriate senior managers. They include detail about progress to date, explanations of variance to plans and projected completion dates.
- c) The organization employs relevant project management tools that help to control the project and communicate roles and responsibilities to team members.

### A.9.2 Information is relevant

- a) The purpose of the project, its link to overarching strategic objectives, its expected deliverables, critical time plan/path and its formal budget are produced, agreed and distributed to relevant employees.
- b) Time, cost and quality targets, tolerances, measures and constraints are known and agreed.
- c) Roles and responsibilities within the project team are documented and distributed.
- d) Project budgets are produced in line with project objectives and organizational expectations.
- e) Project work streams are adequately resourced with funding and personnel time.

- f) Detailed work packages, including milestones, timelines, quality thresholds and funding arrangements are produced and documented.

### A.9.3 Impact on value is analysed

- a) Sensitivity analysis is performed so that variables are controlled effectively to keep the project on track and deliver its proposed benefits.
- b) A project risk register is maintained with breaches of tolerances escalated via exception reports to senior managers.
- c) Processes are established for addressing unexpected deviations from plans. These might include a reporting structure that rates the effect of the issue upon the overall project plan.

### A.9.4 Stewardship builds trust

- a) Project controls provide assurance that deviations from plans are highlighted early and rapid responses deployed to mitigate risks.
- b) The positive and negative benefits of the project process are assessed as part of the post-project review.
- c) Logs of the lessons learned are kept to inform future projects. These are referenced ahead of commencing new projects.

## A.10 Regulatory adherence and compliance

### A.10.1 Communication provides insight that is influential

- a) Through proactive stakeholder management processes, the organization aims to develop good relationships with regulators and government.
- b) Compliance with regulations is introduced, sustained and improved through regular employee training and education. This is supported by cultural changes communicated by senior management.
- c) The results of compliance assessments are discussed, reviewed and accepted or rejected by the governing bodies of the organization.
- d) Buy-in to new approaches to regulatory adherence is achieved through the demonstration of business gains resulting from the reduction of time and effort in dealing with regulators and external auditors.
- e) Recommendations are consistent with both the letter and spirit of the law/regulation, as well as with the objectives, analysis and risk assessment of the organization.
- f) Lessons are learned from instances of noncompliance and are documented to improve policies and procedures and prevent a recurrence of a compliance breach.
- g) All required returns and documentation are filed accurately and in a timely manner.

### A.10.2 Information is relevant

- a) The regulatory and legislative landscape is monitored to understand current and emerging developments and their potential impact on the organization.
- b) Compliance aspirations and minimum quality targets/thresholds are set and communicated.
- c) The organization maintains and documents legislative and regulatory requirements for all markets it operates in. These include penalties for non-compliance and compliance deadlines.
- d) Gaps between the self-assessment results and minimum compliance thresholds/targets are highlighted. Mitigation activities are undertaken to close the gaps. These efforts further define milestones, timelines and responsibilities.

### A.10.3 Impact on value is analysed

- a) New regulatory requirements are considered to be opportunities to improve business performance.
- b) Resources are focused on addressing business improvements, not simply on obligatory compliance.
- c) The costs of compliance and non-compliance are calculated and quantified.
- d) The value of compliance-related investments, such as new control systems, are analysed for overall benefits. These might include environmental benefits.

### A.10.4 Stewardship builds trust

- a) The organization is transparent about its compliance strengths and weaknesses in regard to regulatory and other public reporting requirements.
- b) Processes are implemented and strategically updated to provide assurance to stakeholders that regulatory compliance is complete.
- c) The results of compliance assessments that are undertaken on a cyclical basis in regard to (anticipated) regulatory requirements are documented. Assessments involve the review of controls over core processes, governance systems and organizational infrastructure.
- d) Consideration is given to resources, social impact, ethics and the organization's code of conduct.
- e) New standards are embraced and the organization seeks to be a leader in the interpretation, implementation and reporting of regulatory compliance.

## A.11 Resource management

### A.11.1 Communication provides insight that is influential

- a) Evidence-based recommendations enable managers to prevent high-yielding projects or activities being starved of resources.
- b) Employees understand and buy into resourcing decisions. Allocations are clearly explained so that investors and employees understand what is happening, the rationale for it and the time frame for expected results as a consequence of the reallocation.
- c) There is two-way transparency between employees and managers about idle resource/slack across products and processes.
- d) There is a clear connection between resource allocation and plans, budgets and forecasts.

### A.11.2 Information is relevant

- a) External growth and market potential data are considered and used as a basis to create hypothetical resource allocations. This helps prevent the problems of cognitive bias that arise when next year's allocations are based on the prior year without critical evaluation.
- b) Individual senior managers/investment committee members cast formal votes in favour of or against allocation decisions. These votes are revisited as part of the review process.
- c) High performing employees are known to senior management. Remuneration, job descriptions and titles are standardized to facilitate the movement of talent to priority areas regardless of geographic location.
- d) Technical, commercial, financial and operational feasibility of proposed allocations is provided.
- e) Reports are produced that include capital spending, senior management time, marketing expenditure, research and development funds and top talent/high performing personnel. These highlight resourcing requirements, returns and options so that the opportunity costs of shifting allocations are visible. They also show whether leadership time is sufficiently focused on strategic objectives.

### A.11.3 Impact on value is analysed

- a) Resource allocation is clearly aligned to the business model (inputs, activities, outputs and outcomes).
- b) There is an understanding of the opportunity cost and comparative advantage impacts of differing resource allocations.
- c) Resource allocation is not locked-down immediately after strategy is set. There is a period of reflection before resource allocation is finalized to give the organization time to adapt to the resourcing of strategic priorities.
- d) Execution planning stages are built in between the conclusion of strategy setting and resource allocation finalization to give the organization time to reflect any strategic shifts in the resourcing of those priorities.
- e) Reallocations are analysed by comparing the percentage of resources given to a particular area in the current year with previous years. This tracks the extent to which the organization actually reallocates key resources.
- f) The impact of resource use on outcomes is analysed and understood.

### A.11.4 Stewardship builds trust

- a) The need for sustainable consumption of resources is understood and resource allocation planned accordingly. Usage is measured against planned targets and analysis and insight provided in reports.
- b) Resource allocation for high-risk or unknown investments is staged. Milestone targets are set and additional resources are only released when intermediate targets are reached.
- c) While some investors might react negatively to plans/reallocations that hit near-term earnings, short-term views are balanced against long-term value generation.
- d) Past investment decisions are reviewed via an investment post-mortem. New investment decisions are only considered when presented alongside a business case.

## A.12 Risk management

### A.12.1 Communication provides insight that is influential

- a) The risk culture and framework are communicated to and understood by all employees and business partnerships.
- b) An appropriate risk-aware culture is fostered through regular training and communication of policies and processes.
- c) Effective risk conversations are facilitated at all levels with information that supports the risk management process from identification, assessment and response through to review and learning from experience.
- d) Resilience is built through the creation of a culture and environment where "risk information flows freely throughout the organization up to directors to prevent the 'risk blindness' that affects many boards". [6]
- e) Risk information is used to support the organization's rapid response capability to prevent an incident escalating into a crisis. [6]
- f) Employees have a high awareness of reputational risk and its implications for the organization's activities and information flows.



- g) External risk reports enable stakeholders to assess the quality and effectiveness of the organization's risk management framework. This is through a fair, balanced and understandable<sup>1)</sup> description of the organization's principal risks and its risk management and internal control systems.

#### A.12.2 Information is relevant

- a) Relevant information is gathered and documented and includes the following:
- 1) The risk management culture, risk appetite and tolerances, policies and framework, including costs, proposed benefits and key risk indicators (KRIs).
  - 2) The external risk environment and key drivers of potential risks/opportunities [(e.g. changes to the organization's political, economic, social, technological, environmental and legal conditions (PESTEL analysis)].
  - 3) A schedule of risks that have been identified as material to the organization. These are categorized according to an appropriate risk classification scheme that makes it possible to identify new risks and any material gaps in coverage. Such risk categories might include strategic, tactical, operational and reputational risks. They are considered within the context of the organization's business model, including key external relationships such as major supply chain partners as well as behavioural risks.
  - 4) An assessment and evaluation of these risks, using a combination of both quantitative and qualitative approaches. These typically include estimates of probability and impact (see A.15).
  - 5) Proposed risk responses (avoidance, transfer, mitigation and tolerance) for each material risk are identified.
  - 6) Exposure to risk both before and after the application of controls (gross and net risk).
  - 7) Details of risk events and outcomes (including near misses and stress tests) together with corrective action taken to address control weaknesses.
  - 8) Internal audit reports.
  - 9) Scenarios which indicate how risks interact and combine.
  - 10) Warning signs and red flags.

- 11) Externally-sourced risk information on reputation such as sentiment ratings, feedback on external websites and social media conversations.

#### A.12.3 Impact on value is analysed

- a) Risks and opportunities are analysed in relation to the organization's business model within the context of the external environment.
- b) Long term value is created by balancing risk and reward.
- c) The risk management framework is fully aligned with the strategic objectives of the organization and the performance management system.
- d) Potential risks and opportunities are assessed and articulated in terms of value and probability.
- e) Planned risk responses are evaluated in terms of their impact on value created.
- f) The potential impact of performance management incentives on the organization's risk profile is understood and articulated.
- g) Interrelationships between risks are identified, understood and mapped to understand the impact and probability of multiple, connected events.

#### A.12.4 Stewardship builds trust

- a) A risk framework that is consistent with the organization's strategy, business model, ethical values and culture is embedded throughout the organization. It is communicated to all employees and business partnerships.
- b) Risk management is embedded in the management accounting function and is integrated with the performance management system.
- c) The board of directors is supported in its risk governance responsibilities through the provision of high-quality information on the organization's principal risks and risk management system. This is together with other relevant information on the external environment and key warning signs, such as excessive complexity or a weak challenge culture.
- d) The organization provides confidence to stakeholders that its risks are being managed well through insightful reporting on its principal risks and uncertainties (the what) and its risk management and control systems (the how). These include corrective action taken to address deficiencies and weaknesses.

<sup>1)</sup> See Principle C1 of the *UK Corporate Governance Code* [7] for further information on the assessment of the organization's position and prospects which requires boards to present a "fair, balanced and understandable description".

## A.13 Strategic tax management

### A.13.1 Communication provides insight that is influential

- a) Tax liabilities and profit and loss impact are reported in management information and business plans. Tax is considered to be a board of directors' level issue from a reputational perspective.
- b) There is transparency in reporting the organization's tax position in the annual accounts.
- c) The organization engages in constructive dialogue with the international community about reviews of global tax rules.
- d) The organization communicates regularly and constructively with tax authorities and the organization's advisers.
- e) Relationships with the tax authorities are transparent and aim to be constructive and trusting:
  - 1) all relevant information is promptly provided; and
  - 2) disputes are resolved quickly.

### A.13.2 Information is relevant

- a) The organization has agreed policies and procedures on enforcement and reporting.
- b) Legislative and regulatory requirements for all markets the organization operates in are kept up to date.
- c) Tax compliance policies and procedures covering all aspects of taxation are developed, maintained and understood by all individuals responsible for tax administration.
- d) The principal types of taxation the organization is exposed to in each of the jurisdictions in which it operates are known. The regulatory frameworks of the taxing authorities in those markets are understood and documented.
- e) Transfer pricing policies are developed, followed and well documented. Good practice guidelines are followed.

*NOTE For example, organizations operating internationally might follow relevant Organisation for Economic Cooperation and Development (OECD) guidelines on transfer pricing.*

- f) Where appropriate, technology is used to streamline tax processes, and tax systems are integrated with the organization's financial accounting systems.

### A.13.3 Impact on value is analysed

- a) Tax is considered strategically and planned for well in advance of its due date.
- b) The regulatory and legislative landscape is monitored, trends are spotted and their potential impact on

the organization quantified to future-proof the organization against potential policy changes.

- c) The tax implications of strategic decisions relating to mergers and acquisitions, disposals and capital gains are understood.
- d) Local tax legislations are interpreted in a way that is consistent with driving long-run stakeholder value.
- e) Tax incentives and exemptions that are available in the jurisdictions in which the organization operates are known and used appropriately.
- f) Analysis of the group's deferred tax assets and liabilities are regularly performed.

### A.13.4 Stewardship builds trust

- a) The organization builds trust by reporting its economic contribution and by being explicit about the types and amounts of tax it has paid to relevant stakeholders.
- b) The organization engages only in tax planning that is aligned with commercial activity.
- c) Tax management aims to avoid any situation or result that could damage corporate reputation.
- d) All tax liabilities are paid promptly and in full.
- e) Tax reconciliations are performed regularly.
- f) If required, the organization employs external tax advisers.

## A.14 Treasury and cash management

### A.14.1 Communication provides insight that is influential

- a) Active cash management and good cash visibility allow the organization to reassure bankers, investors, suppliers and rating agencies that liquidity risk is being managed.
- b) The organization conducts early conversations with auditors, corporate advisers and lenders about uncommitted facilities, facilities that are up for renewal and any forecast breaches of covenants.
- c) The importance of bank relationship management is understood and bank account structures and performance are regularly reviewed.
- d) Clear line of sight enables potential cash flow gaps to be identified, allowing decision-makers to act quickly to reduce their impact by negotiating new terms with suppliers, collecting overdue invoices or seeking additional sources of funds from lenders or other capital providers.
- e) Assessments about the optimal use of hedging techniques, in the context of mitigating the risk of currency and interest rate fluctuations are performed regularly to inform risk management.

**A.14.2 Information is relevant**

- a) Funding and financing information from the balance sheet and cash flow statements, incorporating external information such as currency and interest rates, is easily accessible and broken down into the following categories:
  - 1) segmented;
  - 2) actual;
  - 3) trends (incorporating prior periods);
  - 4) forecasts; and
  - 5) drivers.
- b) A treasury policy is maintained and is regularly reviewed by the board of directors or those charged with governance, based on corporate objectives and key risks.
- c) Cash flow forecasts allow a clear line of sight over where cash is tied up, including unpaid invoices and stock, as well as what and when cash is expected to be coming in. This is together with impending cash commitments including details of cash headroom based on committed bank facilities.
- d) An efficient cash management system is established that contemplates future growth of the enterprise, minimizes idle cash balances and provides global visibility to cash positions.
- e) The sources of cash, existing debt facility covenants and headroom levels are known and documented.
- f) A system for managing intercompany transactions is established that balances local and enterprise liquidity and employs netting techniques and other best practices.

**A.14.3 Impact on value is analysed**

- a) Cash flow forecasts are used to drive efficient capital structuring, investment activity and liquidity management.
- b) Variance analysis and effective controls test the accuracy of input from providers regarding cash flow projections.
- c) Robust credit management processes for controlling and collecting payments are carefully followed.
- d) Value chain partners are credit checked and their payment terms judiciously managed.
- e) The highest levels of automation available are applied to cash forecasting. Cash flow buffers are determined through the evaluation of cash versus debtor-investor positions.
- f) The organization's exposure to fluctuations in exchange and interest rates is calculated and proactively managed.

- g) Exchange gains/losses, arising both from transactions in foreign currencies and translation of overseas subsidiary results in foreign currencies, are determined and modelled for impact.
- h) The funding of potential pension deficits and other long-term liabilities are incorporated into both short- and long-term cash flow forecasts.

**A.14.4 Stewardship builds trust**

- a) The resilience of the value chain and/or business model is stress tested for potential changes to macroeconomic conditions and against liquidity and other risks.
- b) A regular review is undertaken to determine if the organization has adequate financial resources in place to continue in existence for the foreseeable future.
- c) When fair value legislative regulation requires the organization to post a profit/loss at year-end that is not accurate; the risks are recognized and appropriately managed.

**A.15 Internal audit**

**A.15.1 Communication provides insight that is influential**

- d) Open communication with the audit committee and management is maintained through regular meetings at which risks are highlighted in order to focus conversations on issues that matter. It is an active and effective reporting line.
- e) Formal plans of all internal audit work are regularly reviewed by the audit committee.
- f) Results of the economy, efficiency and effectiveness of the internal control system are reported to relevant stakeholders (audit committee and/or management) in a timely manner post audit completion.
- g) Recommendations are made to the audit committee for improving policies, processes and procedures in terms of both efficiency and effective performance.
- h) Team members discuss and agree what a reasonable audit result would be and what result requires further investigation.
- i) Quality cost information is also relayed, including the costs of prevention, appraisal costs, internal failure (downtime) costs and external failure costs (e.g. customers, banks, external auditors).

**A.15.2 Information is relevant**

- a) The organization has a risk and control framework that is available to all relevant employees and committee members.



- b) The objectives of audits are agreed with relevant stakeholders and documented.
- c) Audit plans are produced and reviewed annually and made available to team members.
- d) Audit reports identify potential opportunities for improvement and clearly highlight all material issues and instances of non-conformity.
- e) Legal and regulatory obligations relating to internal audits are understood, made available to employees and regularly checked to ensure sure they remain current.
- f) Controls policies are available to all relevant employees and a strong control culture is promoted by management.
- g) The organization's anti-fraud programmes are supported by internal audit employees who make their information available, as required.

#### A.15.3 Impact on value is analysed

- a) The organization's ability to cope with significant disruption is regularly monitored.
- b) Any changes to the organization's PESTEL factors are measured for their impact on risks in case they require an internal audit.
- c) The regulatory compliance programme is evaluated regularly with advice from legal counsel.
- d) Information about incidents of control failure (e.g. material errors or fraud) is given to appropriate employees for correction and/or lessons learned.
- e) The internal auditors provide benefits in excess of what they cost. These are assessed by their efficiency (e.g. the cost per internal audit day, the cost per audit report, the number of audit reports produced) and their effectiveness (evidenced by improvements in internal control).
- f) Audits that highlight problems with existing systems trigger tightening of controls and increased monitoring.
- g) Appropriate testing approaches are considered and selected, such as compliance testing (testing of controls), substantive testing (testing of balances or transactions) and analytical review (examination of ratios, trends and changes in balances).
- h) Analytical reviews are performed that compare financial and non-financial information, to examine the interrelationships of data.
- i) Unexpected variations are always further investigated.

#### A.15.4 Stewardship builds trust

- a) To protect the independence of the internal audit, the head of the function has direct access to the audit committee. Internal auditors carry out their work free from interference.
- b) The audit committee is only constituted of non-executive directors of which at least one is a qualified accountant. It meets at least three times per year.
- c) The audit committee is responsible for approving the appointment and termination of the head of internal audit or outsourced internal auditor.
- d) Those who are responsible for designing controls are not responsible for testing them. Internal auditors do not provide assurance for operations for which they have previously had management responsibility.
- e) Internal audits follow the standards of the relevant regulatory body.

*NOTE For example the International Standards for Internal Audit as issued by the Internal Auditing Standards Board (IASB).*

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### Further reading and websites

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