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May 2017

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INVESTORS’ GROWING CLOUT WITH BOARDS

In the past year, shareholders have increased influence over US boards, PwC research indicates. Meanwhile, boards are paying attention to how they communicate with shareholders.

- Shareholder proposals: 85%
- Executive compensation: 78%
- Board composition: 74%
- Management performance: 69%
- Company strategy development and oversight: 69%
- Use of corporate cash/resources: 67%
- Financial oversight: 60%
- Risk management oversight: 54%

Source: PwC 2016 Annual Corporate Directors Survey.
CRAFTING A KILLER VALUE PROPOSITION STATEMENT

Being able to concisely explain the ingredients of a company’s success — the customer, the problem, the product, the service — can lead to focused growth.

By Mark S. Brooks

Think of an organisation that has a stellar reputation for elegantly solving customer problems. Now think of one that struggles to solve customer problems. The former tends to grow and satisfy markets. The latter usually doesn’t survive long.

One major difference between the two is often the strength of their value propositions.

A value proposition is a statement about the value that your product, service, or innovation provides to a target customer. The concept has existed since the dawn of commerce, but the term value proposition really came into vogue in the late 1980s. Properly adopted, the value proposition can be a great catalyst for customer-focused innovation.

In concrete terms, a value proposition describes the problem your offering will solve, generally how it will solve it, why your target customer should use it, and why it is distinct from alternative options. It should be constructed in a way that convinces a target audience to take action with your offering (see the sidebar, “Formula to Create a Strong Value Proposition”).

Operating with a strong value proposition can significantly enhance your ability to capture market share and growth while maintaining laser focus as a business. Conversely, the absence of a value proposition could increase the likelihood of a mismatch between your offering and your target audience, thus veering you off course.

Constructing a strong value proposition can be hard, especially when fast-moving market forces threaten to erode the efficacy and relevancy of your value proposition. Therefore, two fundamental questions arise: What components must be considered for a value proposition? And how might one create a strong value proposition?

COMPONENTS OF A STRONG VALUE PROPOSITION

A strong value proposition can be summed in an acronym: TRUE. Your value proposition must be true for it to work.
Testable

The problem you are solving must be testable. First-hand observations, surveys, focus groups, or personal experiences with the problem make it testable. These empirical data help you to better understand the nuances of the problem and the potential value of solving it.

Your offering must also be testable. For example, if your offering saves time or money, you must be able to demonstrate this to be true. Testing your solution does not stop with just proving it works. As customers use your offering, you must continuously test for its validity, relevancy, affordability, and general satisfaction of the customer. Is it actually solving their problem? These data points give you important intelligence to help further refine your offering and tighten the value proposition.

Take Thumbtack. Thumbtack is a company that connects consumers with local, qualified service providers. The founders of Thumbtack noticed a big problem: For busy working professionals and parents, the effort and time to find, vet, and schedule professional service providers such as plumbers, painters, or even belly dancers can be frustrating and time-consuming. The problem is testable and observable by anyone who has ever scheduled those services. Moreover, Thumbtack conducted surveys and focus groups to better understand consumers’ specific pain points.

Thumbtack’s solution is to be the intermediary between providers and consumers. It demonstrates this by facilitating price quotes, scheduling, and communications between consumers in need of painting, repair work, etc., and local providers of the services. This too is testable by measuring the response rates and general satisfaction of both consumers and providers.

Real

The problem that your offering addresses must be real. While it’s nice to solve a problem for one customer, your business’s growth is likely anchored to solving problems for many customers. Consider the size of the problem you seek to solve, the number of potential customers, and whether the customer considers the problem significant enough to warrant a fix.

Your offering must also be real. It must actually do something to address the customer’s problem. It must be accessible to them, solve an actual problem, make a particular task easier or more convenient, or generally make their lives better.

For example, modern-day firefighters deal with high-intensity heat for extended periods during fire and rescue calls. They need apparel that allows full mobility while
providing exceptional thermal protection and durability. The problem is real as it is experienced by a large global market of firefighting professionals. It is also significant in that firefighters are trained to help those in need while also protecting themselves from danger. In response, DuPont developed several pieces of wearable gear that protect firefighters from the dangers of high-intensity fires.

DuPont’s offering is demonstrably real as it actually helps make firefighters’ jobs easier and safer.

Unique
Your offering should be distinct and unique from alternative solutions. It should provide a unique experience or be more accessible, cheaper, faster, better, etc., than alternatives. One or more unique characteristics of your offering will help establish and sustain a competitive advantage and potentially make your offering more attractive to potential customers.

For example, Tesla Inc. offers a portfolio of all-electric vehicles. Tesla cars provide a unique driving and ownership experience compared to other electric, hybrid, or petrol-powered cars. They generally have a long range by electric vehicle standards, are considered by some to be more stylish than competitors’ offerings, and have inspired legions of Tesla followers, resulting in a unique culture amongst owners. Additionally, Tesla cars are equipped with sophisticated hardware whose performance characteristics are continuously modified through automatic software updates. Although the vehicles are not priced cheaper, each characteristic makes for a unique experience compared to Tesla’s competition.

Essential
Finally, your offering must be essential in the eyes of a target customer. To be essential, your offering should be so clear and obvious that buying it is compelling, urgent, time-sensitive, and generally the path of least resistance for the target customer.

Parents of newborn babies, for instance, are thrust into a frequent and continuous cycle of nappy changes. In the interest of cleanliness, hygiene, and cuddliness, nappies are a simple necessity. For most parents, buying either cloth or disposable nappies is compelling, time-sensitive, and generally the path of least resistance for dealing with babies’ surprises.

Mark S. Brooks is the senior manager of innovation at the Association of International Certified Professional Accountants, where he is focused on strategic innovation, thought leadership, growth of the profession, and member value.
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GREY SWANS SPREAD THEIR WINGS

Did companies miss the signs of Brexit and the US election? Here are steps for better readiness.

By Al Decker and Donna Galer

In recent years, organisations and industries have sought to better anticipate “black swan” events, those highly improbable incidents with devastating consequences that no one sees coming. Now grey swans are starting to spread their wings across global markets and economies. Grey swans are events that can have equally significant results, but the outcomes are not so improbable given surrounding circumstances. Consequently, they should have been recognised as having the potential to materialise. These events can result in loss or opportunity. The more they are missed, the less likely they can yield a positive opportunity.

Two examples of grey swans have come in the past year. In June 2016, the UK voted to leave the EU, causing a sharp but temporary drop in the FTSE 100 and other global markets. In addition, the pound began a precipitous drop to its lowest point since 1985, falling from 1.49 against the US dollar to 1.20, a nearly 30% decline in seven months.

Meanwhile, in the US, the November presidential election
surprised analysts, investors, and executives, prompting Dow Jones Industrial Average futures to drop more than 500 points in the hours after the election. The Dow rebounded and by March had reached an all-time high, but other markets and currencies weren’t so fortunate. For example, the Mexican peso fell sharply but had risen steadily in early 2017.

Donald Trump’s presidential victory was “yet another blow to the pollsters and pundits following failures to predict the UK general election and Brexit outcomes,” Scotiabank analysts Jean-François Perrault, Derek Holt, and Mary Webb wrote hours after the US election.

Both events had ample lead-up and two possible outcomes. Thus, the degree of surprise their outcomes elicited is, therefore, a surprise itself. The lack of preparation by the groups who would see the actual outcome as a negative risk shows how much more sophisticated the world needs to become in terms of risk management.

HOW TO IMPROVE READINESS
How best to prepare for grey swans may differ slightly depending on whether one is looking at an organisation, a nation, or global markets. In terms of organisations, large and small, here are some suggestions for managing grey swans:

- Maintain an external view of what is happening in the overall marketplace.
- Identify the most meaningful issues that pose significant risks for your business.
- Create contingency action plans to mitigate those risks, even if conventional wisdom says that the issue will fade or will turn out favourably.
- Monitor progress of significant risks and mitigation plans.
- Do not overreact to the issue if it is not resolved in your favour; rather, implement your contingency plans with an appropriate sense of urgency.

In the case of Brexit, there were several days of negative reaction in the capital markets.

Insurance is a major industry sector in the UK. Many industry players had prepared for the grey swan materialising. For example, several insurers announced, after the June vote, plans to open additional offices in the EU to augment what they have in the UK, as a contingency. This could be viewed optimistically for business just as well as it could be viewed pessimistically as added cost. For example, insurers who opened new offices might expect additional sales and revenue from the new locations. The important point is that these insurers saw Brexit as a risk and were prepared to react quickly when the outcome of the vote was to withdraw.

At issue in the US election were matters related to taxation, regulation, and trade agreements. What business decisions were based on the incorrect expectation that will now have to be reversed? What strategies will have to be redrawn? Businesses practising enterprise risk management would have been following the steps outlined above and would have been prepared for either eventuality to some degree. No grey swan for them.

GREY SWANS ON THE HORIZON
Many sources provide information on emerging or escalating risks that businesses could be and should be watching. Here are some of the risk areas which tend to top most lists:

- Business interruption (including supply-chain disruption).
- Cybersecurity (crime, sabotage).
- Terrorism and political unrest.
- Unintended consequences from new technology (driverless cars, robotics, 3D printing).
- Fiscal instability among nations.

These issues are apparent and knowable, hence not potential black swans. They may be grey swans to the extent that businesses have become so inured to their existence that they do not pay adequate attention to them.

Given the scope and potential severity of these risks, organisations should be aware of them while creating risk mitigation plans and make sure that business processes are as robust as possible to offset the effects of these risks.

Al Decker and Donna Galer are authors of two books on enterprise risk management, including Enterprise Risk Management: Straight to the Value.

ONLINE RESOURCE
For more insight into preparation for unforeseen events, read the CIMA report Thinking the Unthinkable at tinyurl.com/jmtmbvl.
CONFRONTING RISK WITH STRONG LEADERSHIP

A chief risk officer can provide the proper oversight that organisations need to get the most out of their risk management programmes.

By Mark S. Beasley, CPA, Ph.D.
As organisations seek to strengthen the robustness of their risk management processes, many of them are rethinking how they are providing leadership for their risk management efforts. While key stakeholders might view the CEO as the chief risk officer, practically speaking, it makes sense for someone else to lead the risk management process.

Larger organisations tend to be more likely to appoint individuals to serve as a chief risk officer (CRO) or in positions with other titles but equivalent responsibilities to facilitate the strengthening of risk management processes and to co-ordinate ongoing risk identification and reporting efforts. Recent annual surveys conducted by the ERM Initiative and the AICPA (see the eighth edition of *The State of Risk Oversight: An Overview of Enterprise Risk Management Practices*, at www.erm.ncsu.edu) find that just over 42% of organisations surveyed indicate that they have designated an individual to serve as the CRO or equivalent. That percentage increases to 63% for publicly traded companies and to 66% for financial services institutions (see the table, “Companies Designating a CRO”).

As organisations launch their enterprise risk management (ERM) efforts, most choose their ERM leader from individuals who are already a part of the management team. Generally, organisations do not begin by hiring a CRO through the creation of a new full-time position. Instead, most organisations begin by adding CRO responsibilities to someone such as the CFO or the chief audit executive. Assigning someone that dual role makes sense in the early phases of an ERM launch, when the process can gain initial traction and not become overcomplicated at the outset. By keeping ERM efforts simple to start, the workload can be handled internally. Then, as ERM processes mature, the organisation may add a new position to ensure someone is handling day-to-day leadership of risk management efforts.

A growing number of organisations are creating management-level risk committees that consist of a number of their key business leaders, who meet regularly to discuss ongoing risk issues and the organisation’s response. Typically risk committees are composed of senior leaders who represent a variety of business functions and who set strategy. By assembling a group of executives with an explicit charge for understanding and digesting information about key risks across the enterprise, those leaders begin to have a more enterprise versus siloed view of the risk horizon.

The presence of risk committees has been increasing over time, with higher percentages of organisations having a management-level risk committee in 2016 relative to prior years (see the chart, “Percentage of Organisations With a Management-Level Risk Committee”).

The presence of risk committees is especially high for publicly traded companies (83%), large firms (80%), and financial services firms (79%). In fact, 58% of entities we surveyed have a management-level risk committee; that increases to 83% for publicly traded companies (see the table, “Firms With a Management-Level Risk Committee”). The typical risk committee meets monthly or quarterly, according to survey respondents.

In addition to these ERM leadership functions, most organisations are also appointing different members of management across the enterprise to serve as “risk owners” for each of the top risks presented to the board. While those aren’t official “appointments” with explicit job titles, informal accountabilities are being placed on business unit leaders across the organisation for them to “own” the risks within their areas of responsibility.

Risk owners are responsible for conducting a deep-dive analysis of their assigned risks to understand root-cause drivers of the risk and to assess the adequacy of the entity’s response to each risk to prevent its occurrence or to minimise the impact of the risk should it occur. Risk owners are often the ones responsible for updating senior management and the board about the current and expected state of their assigned risk. In some organisations, risk ownership is becoming an explicit component of the individual’s performance goals that are used for performance and compensation evaluations.

Finally, boards of directors are explicitly assigning risk oversight responsibilities to a specific subcommittee of the

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**Companies designating a CRO**

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<th>Percentage designating an individual to serve as a CRO or equivalent</th>
<th>Full sample</th>
<th>Largest organisations (Revenues &gt;$1B)</th>
<th>Public companies</th>
<th>Financial services</th>
<th>Not-for-profit organisations</th>
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<td>42%</td>
<td>63%</td>
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Source: North Carolina State University ERM Initiative.
board. While the board of directors is ultimately responsible for the oversight of top risks, the board often assigns responsibility for understanding and approving the organisation’s risk management process to one of its committees. For most entities, the audit committee assumes this responsibility.

WHO SHOULD LEAD ENTERPRISE-WIDE RISK MANAGEMENT?
Organisations achieve the greatest success in strengthening their risk management processes when they pick leaders who have a deep understanding of the business and who are highly regarded within the organisation (for a list of key questions to ask of a CRO candidate, see the sidebar, “What to Consider When Selecting a Risk Management Leader”).

Because the goal of an ERM process is to help management and the board identify and manage those risks most likely to affect the achievement of the organisation’s objectives, it is important that the risk management leader be high enough in the organisation’s leadership team to be knowledgeable and heavily involved in strategic planning and strategy execution. That generally suggests that the individual with risk management leadership responsibilities be a member of the C-suite or have direct access to the C-suite, including the CEO. Risk management champions who are buried too deep within an organisation often struggle to garner the attention of individuals at the enterprise level, and they often fail to help integrate risk management with strategy.

Often those chosen to lead an enterprise-wide risk management process are in financial reporting roles, such as the CFO or chief audit executive, because of their enterprise view of the organisation and their interaction with the audit committee of the board, which often assumes risk oversight responsibilities for the full board. Organisations sometimes tap individuals who serve in other roles, such as the COO or general counsel. Ideally, however, organisations may find the greatest value in their risk management efforts if they shift ERM leadership to individuals who oversee strategic planning. Some organisations are assigning risk leadership to the chief strategy officer of the enterprise.

WHAT IS A CRO’S ROLE?
Whether an organisation formally gives an executive the explicit title of “chief risk officer” is a matter of preference. But it is important for the organisation to explicitly assign responsibility to an individual who leads other executives through processes to identify, assess, manage, monitor, and communicate key risk information to the board and key stakeholders. Without accountability and ownership, risk management changes may not occur, or other business leaders may not understand the process.

Business executives across all kinds of industries and types of organisations are notably concerned that their organisation’s approach to risk management may not be sufficient to encourage the timely escalation of risk issues to top management and the board, according to the ERM Initiative surveys. This finding suggests that leadership should evaluate and redesign how risks are managed in the enterprise to ensure the culture supports the risk management efforts. Having someone with explicit responsibility for risk leadership makes it possible to educate and train business leaders.

<table>
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Source: North Carolina State University ERM Initiative.

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What to consider when selecting a risk management leader

As organisations consider individuals who can lead the ERM process, there are a number of factors to consider. Here are ten questions to ask:

- To what extent does the individual understand our organisation and its key drivers of success? Does this person understand our industry and our core products and services that provide competitive advantage?
- How involved is the individual in helping determine and execute our strategy? Is the individual a participant in the strategic planning process?
- Does this individual view risks as only having “downside” effects that need to be avoided, or are risks also viewed as opportunities?
- What is the individual’s understanding of the ERM concept and related techniques, and does the individual appreciate how ERM is designed to turn existing, traditional risk management efforts into a more strategic view of risks on the horizon?
- Where does the individual fit in our organisational chart?

How many people are between the CEO and this individual in our lines of reporting?

- To what extent is the individual perceived as a respected leader in our organisation? Is the individual’s “voice” one that colleagues at all levels listen to?
- How effective is the individual in leading and coaching others? Will the individual be willing to be patient in helping consult with other business leaders as they assume responsibilities for managing risks affecting their respective business units?
- Will the individual try to “control” things rather than allow other business leaders to own risks under their key areas of responsibility?
- How effective are the individual’s written communication and presentation skills?
- To what extent does the individual have an executive presence? Will management be comfortable having the individual interact with the board of directors and other key stakeholders about key risk issues?

about the risk management process, and the risk leader may play a vital role in helping design and implement processes for escalating risk information to the top.

One thing risk leaders need to make clear is that they are not the owners of all risks affecting the enterprise. Most CROs view their roles as “internal consultants” who help coach and guide risk owners across the organisation in their management of risks. Risk leaders are there to help facilitate that process and to provide consultation to other business leaders who are primarily responsible for risks.

CROs also play a major role in the aggregation of risk information provided from business unit leaders so that they can help develop and communicate a more holistic view of risks affecting the enterprise. Thus, they play a significant role in preparing risk dashboards and board information packets. While CROs often participate in board-level meetings to discuss risks, most of the detailed discussion of risks and the related risk management strategies are the responsibilities of the business leaders who are assigned ownership of particular risks.

DON’T OVERLOOK A RISK LEADERSHIP VOID

Some executives may question whether there is a need to appoint an individual to formally lead an ERM process. We sometimes hear an executive resist any change in risk management leadership with this statement: “Management talks about risks all the time.” While that may be true, there is value in formally engaging management in the identification and assessment of risk. Without someone to lead that process, business leaders may overlook the need to engage in risk thinking, and that ultimately can lead to their being blindsided by significant and catastrophic risk events. In light of the rapid pace of change in today’s global business environment, is the lack of leadership worth the risk?

Mark Beasley (mark_beasley@ncsu.edu) is the Deloitte Professor of Enterprise Risk Management at North Carolina State University and the director of the university’s ERM Initiative. He frequently works with boards and senior management to assist them in strengthening risk oversight processes.
CREATING A CULTURE THAT BENEFITS CUSTOMERS

Old Mutual Group responded to setbacks by implementing customer-centric values.

By Ken Tysiac

When Old Mutual Group reached a cultural crossroads several years ago, the organisation’s leaders decided that strengthening customer-centred values at the heart of the business was the key to bouncing back from significant business setbacks.

The global financial crisis of 2007 through 2009 had buffeted the international investment, savings, insurance, and banking group along with many other financial services organisations. At the same time, Old Mutual, a public company incorporated in England and Wales, experienced a crisis of its own making.

Following an international expansion into the US (on-shore and off-shore), exposure to US credit through variable annuities caused harm to the company (other insurers exposed to US credit issues during this period also experienced difficulties). Losses also were suffered when an investment portfolio did not support guarantee riders purchased by customers on variable annuities by subsidiary Old Mutual Bermuda.

As a result, Old Mutual’s share price dropped on the London Stock Exchange from £1.69 ($3.33) in early January 2008 to £0.39 ($0.66) in late October of that year. The US on-shore and Bermuda businesses both eventually were sold, but Old Mutual’s leaders also recognised cultural changes that could be made to address the challenges it had just faced.

Under new executive leadership, Old Mutual embarked on a path towards improving its focus on customers. New governance models were created to centralise controls, and
it quickly became clear that refining Old Mutual’s values and culture would play a critical role in this transformation.

“It’s got to be driven from the top,” said Sue Kean, Old Mutual’s chief risk officer. “The CEO has got to want to live the values, and there needs to be some sort of measurement.”

UPHOLDING CORE VALUES

Old Mutual’s efforts to shift its company’s culture are included as a case study in the UK Financial Reporting Council report Corporate Culture and the Role of Boards. The Chartered Institute of Management Accountants was a partner in preparing the report, which states that in their oversight role, boards should make sure their organisations:

- Connect purpose and strategy to culture.
- Align values and incentives to support the organisation’s purpose.
- Give careful thought to how culture is assessed and reported on.

Leadership with Old Mutual took all these steps after Julian Roberts became CEO in 2008. Previously, the organisation operated under a decentralised system of governance, with different practices and priorities for individual business units. But under a new group operating model rolled out in 2010, the organisation moved to a centralised system of governance. Throughout the organisation, it would be important to uphold four core values — integrity, respect, accountability, and pushing beyond borders — to align with the customer-focused objectives.

Of course, customer service had always been important at Old Mutual, as it is for all successful financial services organisations. But Old Mutual stated its goal to improve the customer experience across all markets as a priority. It strived to develop and use meaningful customer information to enable better service to customers, and KPIs were implemented to measure progress towards the organisation’s goals. Old Mutual also sought to expand and improve its products and their distribution to better meet customer needs.

After consulting the input of the top 100 leaders in the organisation from around the world, Old Mutual determined that six behaviours should guide personnel in their pursuit of that customer-first strategy. The behaviours spelt out the acronym “ACTNOW”:

- Aim high and take your team with you.
- Customer first — they’re the reason we’re here.
- Treat the business like it’s our own.
- Need to listen carefully and talk honestly.
- Own our decisions, decide, and deliver.
- Win together and help others succeed.

Employees were held accountable to these behaviours in their performance appraisals, and leaders received feedback about their teams’ progress in displaying these behaviours. Using an employee survey, the organisation received feedback on its progress in implementing the culture.

A few years later, Kean began seeking feedback from senior risk and audit personnel in a questionnaire that sought to determine whether the organisation had a good risk control culture. The survey solicited information on whether employees were sticking to structured decision-making processes and if the right behaviours were being incentivised (see the sidebar, “How to Incentivise Corporate Culture”). The survey measured whether information was being
shared, whether the organisation was continuously evolving, and whether governance over big risks was appropriate.

In 2014, the organisation hired Gail Klintworth to a newly created role as group customer director to oversee that intense focus on the customer. She brought a fresh perspective from outside the company that helped the middle-level employees get their people aligned with the customer focus, Kean said.

An example of an area where the customer focus paid dividends is product offerings. In South Africa, for example, Old Mutual Finance introduced a lending product for debt consolidation called “My Money Plan.” The product was designed to educate customers and help them take a holistic look at their finances during a 45-minute consultation, leading them to ask how Old Mutual could help them achieve their financial goals.

In the past, Kean said, back-office personnel, particularly in the main office, had found it difficult to relate to customers because they didn’t interact with them. Instead, the back-office people considered their customers to be either the company employees who used their services or third-party insurance brokers and financial advisers, rather than the end customer.

To help employees understand the end customer experience, they were encouraged to become customers themselves (through staff insurance programmes or staff pensions, for example). In addition, Old Mutual’s global staff survey started to seek feedback from employees on whether they would recommend the group’s products to family and friends. The comments were used to help in the design of the customer propositions. For example, in 2015 a new tax-free savings account was launched in South Africa that customers could access directly online, as well as through advisers.

CHALLENGES IN THE PROCESS

Reducing bureaucracy in the operating model also was a goal, but this was difficult to achieve as more centralised controls were sought. Employees in the culture surveys often assigned negative values to the organisation’s bureaucracy metrics.

Leadership delved deeply into those metrics and found that the employees saw some of the controls necessary in a centralised model as bureaucracy.

“Some of what people called ‘bureaucracy’ was that they didn’t like being constrained in some of the things they were

How to incentivise corporate culture

Company boards should be vigilant in their oversight of the incentives created by performance-related pay — and the corresponding impact on employee boards, according to the UK Financial Reporting Council (FRC) report Corporate Culture and the Role of Boards.

For instance, a board that permits profits to be the sole incentive for senior leadership and employees should not be surprised if the organisation’s people commit fraud, neglect customers, or create a hostile work environment.

Basing at least some incentives on other metrics, such as survey-based statistics on customer satisfaction and employee engagement, can help bring culture to the forefront. The FRC report offers the following tips and advice for boards to provide appropriate governance over culture:

- **Recognise the value of culture.** The board determines the company’s purpose and has responsibility for making sure the organisation’s values, strategy, and business model are aligned with that purpose.

- **Demonstrate leadership.** Boards are responsible for making sure the CEO and other leaders behave according to the desired culture and embed the proper values throughout the business.

- **Be open and accountable.** Boards can focus on how a company displays accountability in how it conducts business and engages with and reports to shareholders.

- **Embed and integrate.** Human resources, internal audit, ethics, compliance, and risk functions should have a strong voice in the boardroom as they embed values and assess culture throughout the organisation.

- **Align values and incentives.** The board is charged with explaining how the performance management and reward system support behaviours that align with the company’s purpose, values, strategy, and business model.

- **Assess, measure, and engage.** To understand whether behaviour aligns with the company’s values and purpose, the board needs to see the results of indicators and measures that can help determine if desired outcomes are being achieved.

- **Exercise stewardship.** Effective stewardship should include engagement about culture and encourage better reporting.
“...doing,” Kean said. “And that was actually a deliberate choice because we were trying to move from a federated to a more centralised model.”

For example, actuarial sign-off was required on new insurance products that contained financial guarantees. Some employees were concerned that this would add time to the product development process and reduce speed to market. To address these concerns, Old Mutual made a significant investment in educating the businesses about the reasons behind the requirements so that they were understood, and the requisite sign-offs were built into the process early on.

Old Mutual’s leaders also found that they had to allow for regional differences in a large, global organisation. Although the core values transcended everything the company did, some of the behaviours were different in a local context.

For example, in South Africa the sales approach is community-based in the mass market, where basic financial education is part of the proposition. This differs from the UK, where products are distributed to more affluent customers. Although approaches may differ depending on the region, the underlying values of integrity, accountability, and customer focus remain.

Overall, though, the organisation’s work to form an optimal culture paid dividends. The initial employee values survey in 2011 found that just two of the ten cultural benchmarks sought by leadership were displayed in the organisation. By 2015, seven of ten benchmarks had been met, and the survey’s metrics rated the company’s culture as healthy.

The stock price climbed steadily from below £0.40 ($0.57) in March 2009 on the London Stock Exchange and was listed between £1.50 ($1.88) and £2.50 ($3.13) from late June 2012 through late February 2017, when this story was written.

“It’s been a bit of an evolution,” Kean said. “But I think the key thing is really starting with the values and behaviours and then just using a variety of different methods to do some follow-up measurement.”

WINDS OF CHANGE
Kean calls the story of Old Mutual’s post-financial crisis cultural evolution a “historical case study,” because in the fast-changing world of global business, the organisation has moved on to a new way of operating.

Roberts stepped down as head of the company in 2015 and has been replaced by Bruce Hemphill. Under his leadership, the organisation is undergoing a managed separation of its four business units into separate stand-alone businesses, which will consist of UK (Old Mutual Wealth) and US (OM Asset Management) organisations as well as a South Africa-based emerging markets business (Old Mutual Emerging Markets) and a South Africa-based bank (Nedbank Group).

The central office’s role is evolving to one of a non-operating holding company that will provide risk management and oversight to the businesses from a shareholder perspective during the transition before dissolving after a few years. But the good cultural practices that were put into place will remain in the separate business units, Kean said.

Their leadership scorecards will continue to emphasise behaviours that put the customer first. The CEOs and boards of the businesses are being equipped to revisit the core values and leadership behaviours they need, and culture surveys will be done individually by the businesses.

“They obviously need to go through the same process that we did six or seven years ago, starting out fresh,” Kean said.

Meanwhile, the central office continues to work on its culture during this transition period. It’s a much different exercise now, with a group of 150 employees rather than several thousand. They have gone through leadership workshops as they redefine their objectives and roles.

Performing in a new environment with a much more transitory nature has created a need to identify a new group of values that better fit their circumstances. They have identified six new values – flexibility, positivity, commitment, trust, respect, and honesty. And they are working once again to develop a culture that reflects those values.

“That’s the important thing about culture,” Kean said. “It will be whatever is right for a time and a place.”

Ken Tysiac is a CGMA Magazine editorial director.

What boards should ask

- Is internal audit (IA) sufficiently highly valued within the organisation?
- Does IA have the degree of independence needed, or do we need to change the reporting lines for IA?
- Does IA have a clear mandate to incorporate cultural issues into its audits, and is this mandate written into the audit charter?
- What steps do we need to take to invest in IA and develop the skills base and capabilities?
- Could we do more to ensure IA, HR, compliance, and risk functions work collaboratively and report jointly to help us draw insights into culture?

STUNTED GROWTH FOR FEMALE DIRECTORS

Research indicates financial benefits of gender-diverse boards, but obstacles remain as progress lags.

By Carol C. Bishop, CPA, DBA; Robert M. Wilbanks, CPA, CGMA, DBA; and Anne M. Wilkins, CPA, DBA
Male directors have historically dominated public company boards. But opportunities for women are increasing through legislative and regulatory actions, stakeholder initiatives, and corporate efforts to prioritise recruiting female board members. Research indicates that gender diversity at the board level improves board decision-making processes as well as company financial outcomes, including earnings quality. Qualified accountants are also frequently sought for board service.

In this article, we summarise global board gender-diversity trends, review impediments to gender diversity, highlight the potential benefits of board gender diversity, and offer recommendations for women considering corporate board service.

GLOBAL BOARD GENDER-DIVERSITY TRENDS
Many countries achieve comparatively high levels of female directors as a result of quotas mandating board gender diversity (see the chart, “Board Diversity by Country,” available with the digital version of the article at cgma.org/female-directors). The proportion of female directors is generally lower in non-quota markets, such as the US (18.7% for S&P 500 companies), the UK (18.5% for FTSE 350), Australia (17.7% for ASX 300), and Canada (14.6% for TSX Composite), and noticeably lower in Asian markets such as Hong Kong (10.2% for Hang Seng), Singapore (6.8% for STI), and Japan (2.7% for Nikkei).

Globally, boards are 14% female, according to the World Economic Forum, with five countries above 30%: Iceland, Norway, France, Latvia, and Finland. In countries such as Australia and Canada, tougher annual report disclosure requirements and more sustained, high-profile governmental and private sector efforts have raised awareness of the board gender-diversity issue.

In the US, regulators currently require only that board nominating committees explain how they consider diversity in the board nominating process and leave it to companies to define the meaning of diversity. However, the US Securities and Exchange Commission discussed reviewing the diversity disclosure requirements in response to a 2015 report by the US Government Accountability Office, Corporate Boards: Strategies to Address Representation of Women Include Federal Disclosure Requirements. The study highlights concerns that the current requirement has failed to generate information useful to the many stakeholders of public companies.

IMPEDIMENTS TO BOARD DIVERSITY
The general lack of gender diversity on US corporate boards, for instance, suggests that female board nominees face challenges when seeking board service. Indeed, previous board gender research finds that factors outside of female board nominees’ control affect the likelihood that companies will have a female presence on their boards. These factors include board size, company size, industry type, current proportion of female directors, and the extent of internal and external calls for diversity.

Female board nominees may also find it difficult to join male-dominated boards as boards place a high degree of importance on board collegiality when considering nominees. Thus, male directors may be more inclined to add other men from within their existing personal and professional networks. Likewise, male-dominated boards may be reluctant to add qualified women to board positions,
even women with significant expertise, unless there is good mutual chemistry and a sense of comfort.

Male and female directors differ in their views regarding whether to prioritise board diversity and how to increase female presence on boards. Indeed, 36% of female directors indicate that board diversity is not a top priority in board recruiting, but only 16% of male directors agreed, according to a 2016 global survey by executive search firm Spencer Stuart.

The report, which used the responses of more than 4,000 board members in 60 countries, finds that 36% of male directors attribute the lack of gender diversity on boards to a shortage of qualified female director candidates, but only 7% of female directors agree. Preferred steps to increase gender diversity tend to vary across gender lines. Female directors are more likely to personally support board diversity quotas (49% vs. 9% of male directors) or requiring additional disclosure of board diversity efforts (43% vs. 14% of male directors). These findings may suggest that some board members may be resistant to change or may perceive that there is not a sufficient pool of qualified female board nominees.

### POTENTIAL BENEFITS OF BOARD GENDER DIVERSITY

Recent studies indicate that companies with gender-diverse boards have higher earnings, lower audit fees, lower likelihood of financial misstatements, favourable stock market reaction to the appointment of female board members, and better communication with stakeholders. Board gender-diversity advocates argue that more diverse boards improve board decision-making processes and increase financial reporting quality by broadening the perspectives and talent pool on boards.

On the other hand, some critics argue that mandating board quotas might de-emphasise the importance of qualifications for board service and lead companies to replace capable directors with new directors with less experience and expertise.

Women appointed to S&P 500 board positions are more qualified and more likely than male counterparts to have external credentials, studies show. In sum, companies may find that women bring unique perspectives to the board.

Behavioural and psychological studies suggest that men and women have differences in work styles and communication that appear to carry over to the boardroom. Specifically, previous research indicates that women are better monitors; are less tolerant of opportunistic behaviour (see the chart, "Risk in the Eye of the Beholder"); are more likely to develop trust relationships; promote information sharing; improve debate and decision-making processes; think more independently; and are more civil and sensitive to other perspectives. A report by International Finance Corporation, *Women on Boards: A Conversation With Male Directors*, which features interviews with multiple male directors from a wide sample of international corporate boards, corroborates these findings and suggests that male directors generally perceive that female directors encourage more objective discussion, bring energy to the board, focus on strategy as well as ethics and conduct, and are more prepared for board meetings.

However, some studies suggest that adding female directors may have no effect on firm performance, or may actually

### Women in the accounting profession may find increasing board opportunities because of their financial expertise.

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Source: 2016 Global Board of Directors Survey, Spencer Stuart and WomenCorporateDirectors Foundation.
Strategies for board nomination

Women seeking board positions should employ strategies to improve their visibility through events, social media, and speaking engagements. Networking with professional director search firms will likely give prospective board nominees an opportunity to submit their résumé and/or qualifications to the recruiting firm.

To network with others who are currently serving on a corporate board or who are searching for potential nominees, they may also want to attend events sponsored by organisations such as Catalyst, which has offices on four continents; the National Association of Corporate Directors in the US; and WomenCorporateDirectors (WCD), which has more than 70 chapters around the world.

Potential nominees should consider improving their social media presence by updating their LinkedIn profile and posting regularly to their network about current trends or events in corporate governance, earnings quality, trends in board nominees, etc. Likewise, potential nominees should consider accepting speaking engagements or writing opportunities to publicise their expertise and knowledge.

Women who might be considering board service can learn more about the board nominating and appointment process by accessing resources available at the WCD’s website (www.womencorporatedirectors.com). These tips highlight the importance of actively networking, filling expertise gaps, and gaining leadership experience:

- Build a strategic plan for yourself and your career.
- Use an executive coach to help position yourself more effectively.
- Take a board preparedness programme.
- Create a matrix highlighting your skills and experiences.
- Create a board biography that highlights your leadership skills.
- Fill gaps in your experience.
- Raise your visibility by getting involved in not-for-profit organisations and other organisations supported by board decision-makers.
- Identify corporations on whose board you wish to serve, fully research the company, and determine if you have common experiences with current directors.
- Understand the skills most valued by boards and assess where you could make a contribution.
- Communicate your interest in board positions at particular companies and/or in certain industries.

Indeed, Nancy Calderon, KPMG Global lead partner, and Susan Stautberg, CEO, co-founder, and co-chair of WomenCorporateDirectors (WCD), in their book, Women on Board: Insider Secrets to Getting on a Board and Succeeding as a Director, suggest that women need to be proactive and strategic in their search for board positions rather than waiting to be recognised for their talents.

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Find more resources with the digital version of this article at cgma.org/female-directors.
Mobin Saulat, FCMA, CGMA, thought accounting would be a reasonable choice of career, if not an exciting one. He had finished his undergraduate education in Pakistan with high marks in physics and mathematics, and it seemed he might follow his father’s path as an accountant in the country’s civil services. “I’ll be very blunt,” he said. “Back in those days, any student who got a reasonable background with respect to the qualifications … the expectation was either to become an engineer, or a doctor, or an accountant. We didn’t have the luxury to explore any other thing.”
He took the accounting civil services exam to enter the bureaucracy. His aptitude for management and analysis, however, would lead him far beyond those expectations. Decades after taking that exam, a time that included jobs around the world, he headed home to Pakistan to work in project management at the grandest scale.

Today, Saulat is the managing director and chief executive of the state-owned Inter State Gas Systems Limited, currently coordinating close to $7 billion of natural gas pipelines that will reshape markets in the Middle East. He is responsible for planning and delivering some of the largest infrastructure projects in Pakistan’s history.

“That’s a huge task and one of the most challenging experiences,” said Saulat, a speaker of Urdu, Arabic, English, and Japanese. “… All these projects, they’re one of a kind. We don’t have such precedents in Pakistan.”

So, how has he found his way?

He points first to the White Oil Pipeline, a $500 million project to run a 26-inch pipe across nearly 600 miles of Pakistan. Budget-wise, it’s not even a tenth the size of the portfolio he’s now working – but it was an introduction to national projects.

PROJECT MANAGEMENT
This project, he said, was of “huge strategic value,” as it would allow Pakistan to reduce its dependence on roads for oil transport. He was familiar with the subject matter, having worked in setting up infrastructure projects in Saudi Arabia – but that’s not what his new employers wanted most.

“It was actually the project management skill that was of most interest to them,” he explained. “They wanted to set up an entire financial management system, dealing with this challenging task, in our part of the world.”

He identified a few key challenges early in the project. First, it would span from the port city of Karachi deep into Pakistan, meaning that transportation and coordination of materials would be a challenge. He also knew he’d be working with a consortium of Chinese and local companies, with no room for deviation from the design.

The team started by sorting the project’s tasks and components on two major axes: required lead time and required foreign assets.

“The task was to identify which items are critical, which items are not locally available, and what sort of timelines are involved to get them into Pakistan,” he said. This analysis revealed, for example, that there were no local manufacturers capable of building the pipeline’s pumping stations. Instead, Saulat helped the team source the equipment from outside Pakistan. By identifying this and other obstacles, the team were able to ensure that they finished ahead of schedule.

“Most of the projects in our part of the world failed because of this lacking of capacity,” he said. “We were able to expedite this process.”

TALENT MANAGEMENT
Of course, projects at this scale depend on people, too. Knowing that they faced a “huge communication gap”, the managers intentionally hired numerous interpreters to keep on hand at all times.

Meanwhile, Saulat was developing an eye for talent that would prove crucial as he moved on to even larger projects. During the White Oil project, he said, “there definitely was a realisation that certain expertise was not available.” He had insisted on bringing in experts from abroad to fill that gap in the short term, but he focused that recruitment on Pakistani people living abroad, hoping to bring their talents home, and he required that consultants transfer knowledge and technology to his local team.

Over the years, this strategy has built up a team of more than 60 engineers, accountants, and others at Inter State, greatly improving Pakistan’s capacity for larger and larger international projects.

“We started with almost 100% dependency on international expertise. Now we are almost less than 50% dependent on those external advisers,” Saulat said.

BUREAUCRACY MANAGEMENT
The executive himself has learned a few lessons in working at the state scale, too. Because his work is tied up in the procedures of government, he has memorised the bureaucracy just as well as he and his father learned the rules of accounting. He works, he said, with the understanding that he will be under constant scrutiny.

Working with ministers and other government leaders, he added, “you need to help them not only to formulate a strategy but also to make sure the procedures are being followed.”

And, still, Saulat traces his own success to the transformation in his thinking that came when he left Pakistan and stepped into a world where accountants do more than count.

“It’s all looking ahead, taking a futuristic view, applying the financial skills, and understanding the implications on the decision-making,” he said. “The role of the financial controller is always to see what is happening in all the segments of the project – and, going back to my experience in the White Oil pipeline project, I realised immediately that everybody is looking to you.”

Andrew Kenney is a CGMA Magazine contributing editor.
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According to the CGMA Global Management Accounting Principles, treasury and cash management is defined as:

“The corporate handling of all financial matters, the generation of external and internal funds for business, incorporating the management of currency and interest rate risk, bank facilities, funding and cash management.”

As guardians of organisations’ assets, management accountants are responsible for stewarding liquidity, optimising capital structures, and supporting the execution of strategies that generate value for all stakeholders. Since the 2008 global financial crisis, however, the environment in which the treasury function has to generate value has become much more complex. Management accountants must therefore update their skills and competencies to cope with the new expectations.

This treasury resource has been written in partnership with the Association of Corporate Treasurers (ACT), the chartered body for treasury. It draws on the ACT’s technical expertise, the CGMA Competency Framework, and the ACT Competency Framework. This special report will prove invaluable to management accountants who recognise the new challenges in treasury and wish to develop their capabilities to take advantage of arising opportunities.
The key role of the treasury function is to advise the board and management on the business decisions and financial considerations that are fundamental to corporate strategy. Securing finance, maintaining funding, and managing risks are essential treasury skills that enable the execution of that strategy.

Three strategic and interrelated questions are fundamental to treasury decision-making:

1. **What do we invest in?**
   - Effective treasury requires a thorough understanding of the organisation’s business model and its industry.
   - Treasury interfaces with a range of business stakeholders, making it vital that the management accounting, tax, and treasury functions are all properly aligned and mutually supportive. To do its job effectively, treasury relies on building credibility and trust, throughout the business and externally.

2. **How do we fund these investments?**
   - Externally raised capital may be debt or equity, although hybrid structures can also be created.
   - Treasury has a fundamental role to play in setting an organisation’s financial strategy, using the following three factors to assess the optimal financing solution:
     - **Ranking of capital** – the ease and cost of financing.
     - **Leverage** – how to measure and monitor the ratio of debt to equity.
     - **Markets** – the diversity of sources and the maturity of financing.
3. Cash and liquidity management

Liquidity means access to cash. Its management is the most fundamental element of treasury management. If it fails, the organisation cannot continue to function.

The key tools for managing liquidity are:

- **Cash management**: Using cash generated by business operations, cash surpluses retained in the business, and short-term liquid investments to ensure that payment obligations can be met.
- **Working capital management**: Managing supplier payments, receivables, and inventories to optimise the investment in working capital.
- **Organising and managing borrowing facilities**: Using cash flow forecasts, building in planned/required new funding and maturing funding that must be repaid or refinanced.

4. Treasury operations and control

Treasury operations are exposed to particular risks such as fraud, error, and failures of markets and systems.

Segregation of duties is designed to prevent fraud and detect errors. It is an essential approach that means no transaction or payment, internal or external, is ever carried out without at least one other person knowing about it. This is a general principle in the treasury function, meaning those executing and recording transactions may not confirm or settle those transactions.

5. Treasury and financing risks

Treasury and financing transactions are subject to a number of risks and consequences that are important for management and boards to understand. These include:

- **Interest rate risk**: If interest rates rise, borrowers will pay more interest. If they fall, depositors will earn less.
- **Economic foreign-exchange risk**: The risk of a change taking place in the value of an organisation due to varying exchange rates.
- **Currency/commodity transaction risk**: The risk that changes in foreign-exchange rates may make committed cash flows in a foreign currency worth less or cost more than expected.
- **Foreign-exchange translation risk**: Results from exchange differences that arise when consolidating foreign currency assets and liabilities into the group financial statements.

6. Financial risk management and risk reporting

Corporate finance theory suggests that the value of an organisation can be increased if its risk (the uncertainty of returns) is reduced.

Responsibility for managing financial risk often resides with the treasury function. Treasury activities must be included in the organisation’s management information as well as, where material, to the market.

**Key questions to consider – Start the dialogue**

Management accountants must be aware of the overall approach of the organisation to financial risk management and be able to answer the following questions:

- Has the organisation properly articulated its management approach to threats and opportunities?
- Hence, is there capacity to take certain risks?
- If so, is there an appetite?
- How much of this appetite can be delegated to the treasury function?
CONCLUSION

Nearly a decade on, the global financial crisis continues to have an impact on business everywhere, increasing the need for effective treasury practice. Financial markets are now more volatile as risks, such as financial counterparty risk, have increased and traditional funding sources are changing.

Not all boards and senior management fully understand what a treasury function should be doing. Management accountants, more than ever before, must proactively understand treasury requirements and be prepared to engage the treasury function. They are particularly suitable for this role. They have advanced analytical abilities. And they are well placed to identify and exploit those technology and market trends that support future best practice and meet emerging business needs.

7. Accounting standards

An important feature of accounting standards is how quickly they change – and they change faster in treasury than in almost any other area.

Changing standards can have a major effect on covenants in loan agreements. A change might alter how some ratios are calculated, and these changes might possibly cause a loan default. For this reason, those standards in place at the date of the loan agreement are used to calculate covenants (in a process known as “frozen GAAP”).

Further resources

This report is based on our series exploring treasury and cash management. To find out more, visit cgma.org/treasuryessentials.
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Directors must take initiative to make sure a company’s ‘crown jewels’ are protected.

By Sarah Ovaska-Few

Corporate board members can’t afford to ignore the dangers of cyber-attacks, with an infected file capable of quickly stripping a company of valuable information.

It’s not a matter of just slowing down operations; data theft could jeopardise pending mergers and acquisitions or create a public relations nightmare.

With money and reputation at stake, board members need to make cyber-security a company-wide priority if it isn’t already, said Kim Chatani, CPA, CGMA, a California-based Khronicle Partners Inc. advisory partner with two decades of experience in audit consulting and information technology.

“The board must own it, and they must set the tone,” said Chatani, who also serves on the board of two companies, including a bank.

It’s important to know about the risks to help properly
steer the company in the right direction, he said.

“Don’t be afraid and shy away from learning about cyber-risks,” Chatani said. “The board is ultimately responsible at the end of the day.”

WHAT’S AT STAKE
Awareness of lurking hackers and other online dangers has increased tremendously in recent years, said Robyn Bew, director of strategic content development for the National Association of Corporate Directors (NACD), a US not-for-profit focused on boardroom issues.

In 2014, less than 40% of corporate directors reported that cyber-security risks were routinely covered in board meetings, according to the NACD’s Director’s Handbook on Cyber-Risk Oversight. That number jumped to 90% last year, Bew said.

“Cyber-security has really become part of the board’s regular agenda,” she said.

The jump in awareness is in no small part because of news coverage of major events, from customers’ data at companies such as US retailer Target being compromised to major geopolitical events such as the fallout from the WikiLeaks data trove. A teenage hacker exposed security weaknesses in 2015 at the UK’s TalkTalk internet service company, a cyber-attack that cost the company more than 100,000 customers and £60 million ($73 million), according to The Guardian.

A breach can begin by an employee inadvertently downloading an infected file, or through a more targeted infiltration by capable hackers who can bypass basic security measures.

Cyber-security experts have seen an uptick in extortion-related events, Bew said, with hackers demanding money after stealing data from a company.

No businesses or industries are considered safe from attack.

“Cyber-security is a massive issue for all corporate entities, regardless of size,” said Nigel Davies, FCMA, CGMA, a Wales-based accountant who also serves on the board of a financial services company. “Attackers have little feelings from where they find their ill-gotten gains, they simply target the most vulnerable.”

Nearly half of all cyber-breaches stem from criminal or malicious attacks, with an average cost to victims of $4 million, according to an IBM study on data breaches.

No alarm bells generally sound when online thefts occur; an average of 146 days can pass before officials...
realise information was compromised, according to the NACD.

There are also considerable risks when third parties, such as law firms or consultants, hold sensitive information, as was the case when more than 11 million documents, known as the “Panama Papers”, were leaked to journalists after hackers stole the data from a Panamanian law firm specialising in off-shore business dealings.

HOW TO BOOST CYBER-SECURITY

Evaluate board composition. If the board lacks tech expertise, consider bringing someone with that background on board.

Kim Chatani, CPA, CGMA, a Khronicle Partners Inc. advisory partner who serves on the boards of two companies, said the future board member needs to have the ability to look at how cyber issues affect business. “It doesn’t mean the board should look to add members with a pure technical background,” Chatani said. “These board members also have to have a business mind and see how the technology interacts with the business side.”

If the board doesn’t have the technical expertise to effectively govern cyber-security, it can bring in a third-party subject-matter expert to consult on the issue.

Find your crown jewels. The first thing board members need to find out is what and where the most valuable information in the company is, and what would happen if it were compromised.

The most valuable data set, or “crown jewels”, will be different from company to company, and it’s important to look at all levels of a business to figure out what vulnerabilities exist, said Robyn Bew, the director of strategic content development for the National Association of Corporate Directors in the US. Also come up with a plan of what to do if the data are compromised, and how clients, authorities, and other stakeholders will be notified. Because no one is immune to cyber-attacks, everyone should have board-approved plans and policies for how to react and minimise the damage if they do get breached.

Get regular updates. The board needs to get regular updates from management on contextual indicators related to cyber-security. For example, board members can be updated on how many threats to the network were detected in a given month; whether any breaches occurred; the cost of those breaches; and how management has responded to threats and managed and maintained its networks.

“They don’t necessarily need to be totally in the weeds,” said Steven Ursillo Jr., CPA/CITP, CGMA, a partner and director of technology and assurance services for the US-based accounting and technology consulting firm Sparrow, Johnson & Ursillo. “But they need to know enough to be able to steer the ship in the right direction so they don’t head for disaster.”

Discourage risky cyber practices. Breaches can occur when employees are allowed to use their own technology and plug into company networks without scanning for viruses, said Anurag Chaturvedi, a senior director at Crowe Horwath International in the United Arab Emirates. Push for policies that also prevent staff from using unsecure Wi-Fi networks at places like coffee shops.

Employees who travel frequently, especially in nations known to be hot-beds of cyber-crime activity, need to maintain protections on their devices and avoid using unsecure Wi-Fi networks, Bew said.

Finally, require strong passwords. Do not tolerate the use of “password” or “12345” as the gateway to privileged information.

Make cyber-security a top priority. Companies should align their cyber-security policies with governance, overall risk management, and the company’s business planning, Chatani said. Also consider looking at cyber-risk insurance as a part of the overall strategy.

“The effectiveness of cyber-security would be enhanced greatly by doing so,” he said.

UNEXPECTED DANGERS

Known events are only the tip of the iceberg when it comes to cyber-security, Bew said. Even more concerning are situations in which companies have been breached but don’t know it until they suddenly lose bids, or overseas competitors release products with striking similarities.

It can be impossible to determine what the losses are in those cases. “There’s all this stuff that’s under the water that
we don’t see,” Bew said. “How do you calculate the value of lost intellectual property?”

With the widespread prevalence of cyber-theft in all types of industries, it’s extremely unlikely that a sizable company would have no ongoing issues.

“A red flag for directors would be if management is reporting that the company is not experiencing any cyber incidents,” Bew said. “No company is perfect at this.”

CONFIDENCE NOT WIDESPREAD
While awareness of cyber-security issues is up, not all board members are confident in their abilities to address them. The NACD survey found that nearly 60% reported that they were challenged when it comes to overseeing cyber-security issues.

Board members of smaller companies have a steep learning curve as well, according to a PwC survey. While 63% of directors at large companies report being very comfortable in their company’s resistance to cyber-attacks, less than a third of directors at smaller companies had that same level of assurance.

Not making cyber-security a priority puts a company at unnecessary risk, said Anurag Chaturvedi, a senior director at the consulting firm Crowe Horwath International in the United Arab Emirates.

It’s important that boards lead the discussions on cyber-security to look at the overall health of the company and determine how much an attack could disrupt operations, he said. “Boards need to understand risk exposure and their risk appetite while developing their cyber-security priorities and strategies,” said Chaturvedi, who specialises in information technology risk assessment.

He estimates that large companies in the UAE will spend 40% to 55% more this year compared with the previous year on cyber-security, a necessary uptick to meet rising threat levels.

WHAT TO DO
Finance professionals, including those who head audit committees, can play key roles by pushing management to adopt policies that minimise the dangers of cyber-intrusion where possible, said Davies, the Wales-based accounting expert. “These skills enable them to research, translate the sometimes complex IT issues, and balance the risks with the costs,” Davies said.

He also recommended seeking cyber-security insurance. The process involves going through a detailed risk assessment and will help board members as well as company executives assess areas of weaknesses and adopt best practices.

Companies should not wait until an attack occurs to formulate a response plan, said Chaturvedi.

He suggested companies go through an inventory where they assess the cyber-security risks of IT systems, data stores, vendors, and suppliers. Then, at the board’s urging, policies can be deployed to detect ongoing and future attacks. “Attackers are constantly innovating, testing, and refining their tactics,” he said. “This is a battle where inattention and complacency can have devastating consequences for an organisation.”

While many board members may not have the technical knowledge to completely immerse themselves in cyber issues, Chatani said those with keen business skills don’t need to. Rather, board members can concentrate on protecting the most valuable data, or “crown jewels” of the company, and authorise company officials to take steps to protect those data.

He also suggested developing sources on cyber-security outside the company that can offer insight into trends that in-house technology experts may not know about. It’s important, however, to not depend on a consultant to do all of the work, he said.

“You can outsource the work,” he said. “But you can’t outsource the responsibility.”

Sarah Ovaska-Few is a US-based freelance writer.
Angela Wilson, ACMA, CGMA, has led an initiative to improve forecasting within the UK government to inform better resource allocation decisions.

By Samantha White

Allocating resources to ensure provision of the services required of the government of the United Kingdom is a mammoth task. To inform this process, each department provides the Treasury with a forecast of its spend every month. The Treasury uses these forecasts to manage total spending, meet annual budgets, and make decisions about resource allocation, so the degree of accuracy of each forecast has an impact on outcomes.

Government has generally tended to lag behind industry in keeping up with best practice and the most efficient methods. Furthermore, the 50 ministerial and non-ministerial departments that make up UK central government have operated in a very siloed way, and there has been little standardisation of processes between them. To build a modern finance structure, and put finance at the heart of decision-making, a financial management review was undertaken across government in 2013.

Angela Wilson, ACMA, CGMA, chief management accountant at the Home Office, has played a pivotal role in efforts to improve forecasting at the department following a government-wide goal to tighten forward-looking financial reports. Improved forecasting can, in principle, help minimise borrowing costs, promote more efficient spending, and help reduce deficits. In a large organisation such as a government, it can help identify underspends earlier or help manage any projected overspends.

The Home Office looks after security and policing, borders, and immigration in the UK. Some of these issues and services are of increasing priority in terms of urgency, making good resource allocation even more important. Focusing on increasing the accuracy of forecasting means finance has been better placed to help the board make prioritisation decisions with added confidence.

Wilson has sought to improve the management information that goes into the forecast and raised awareness of the significance and implications of accurate forecasting to colleagues inside and outside of finance and throughout government departments. Her approach has been a prime example of finance business partnering.

Here are some of the steps she took:

**Forecasting and risk toolkit.** To raise awareness of the significance of accurate forecasting, and to communicate best practice both to finance colleagues and budget holders from other disciplines, Wilson created a forecasting and risk toolkit as part of a cross-government team. The toolkit was launched at a government conference in 2016 and is available to colleagues via the Civil Service Learning website and the One Finance website.

Technical aspects covered in the toolkit include the principles of effective forecasting, such as aligning it to the operational model and business and strategic focus, as well as identifying the elements which should be prioritised.

**Prioritising forecasting efforts.** The prioritisation guidance section of the toolkit includes a matrix that enables users to identify high-materiality and high-volatility spends and ensure they are focusing their efforts in the right place. This involves forecasting volatile, material items on a monthly basis. “Whereas elements which are highly material, but very low volatility, such as the Police Grant, don’t need to be monitored throughout the year,” Wilson explained.

**Encouraging decision-makers to test forecasts.** The toolkit also contains a set of questions senior decision-makers should ask the operational or finance staff when they provide
a forecast. The questions are designed to challenge and test the data to give decision-makers confidence in the robustness of the forecast and help them understand the volatility and sensitivity involved.

The toolkit invites individuals to consider the forecasting challenges faced in their section and plan ways to address those challenges.

**Spreading the word.** To spread the message on the importance of accurate forecasting and demonstrate how to use the toolkit, Wilson has been hosting lunch-and-learn sessions in other government departments and inviting budget holders (who are often non-finance people) to attend. Although some participants have an understanding of the impact any degree of inaccuracy in their forecasts have on their own department, the impact that has on decisions being made at the Treasury level comes as quite a surprise to some, said Wilson.

**Aligning assumptions.** “As austerity has kicked in and we have got ever-decreasing budgets to live within, finance has come into its own,” Wilson said. “There have got to be more informed decisions, so we have to make sure that the forecasting is more accurate and that we’re all talking about assumptions and risks in the same way.”

**Accountability and ownership.** Part of the communication effort has been around accountability. “We talk a lot about accountability and ownership because we find that it’s really important with our budget holders. It’s their forecast – it’s not finance’s. Finance are there to advise, guide, and help them with the decision-making but at the end of the day it’s pushing the accountability back to the budget holder.”

**Starting earlier.** As well as improvements to tools and management information, building capability in the finance function, and educating budget holders and senior decision-makers as to how they can support more accurate forecasting, one of the first things Wilson and her team in the Home Office did was to start monthly forecasting discussions with business partners earlier in the month. Moving the conversation forward allows time to assess the consolidated picture and review major areas of concern. It also means a timely and informative board report can be produced.

According to the Financial Management Reform Forecasting and Risk toolkit, this report “presents forecasts clearly and communicates the level and causes of uncertainty around estimates. Risks are understood, quantified and an aggregated view is presented to the Board.”

**GETTING RESULTS**

One outcome is that finance business partners are now spending less time reviewing forecasts and more time helping the business understand what their priorities are, explained Wilson.

The Home Office has seen forecasting accuracy improve by several percentage points in about 18 months, and the Treasury is seeing an improvement across the board.

Wilson is currently acting senior finance business partner for the Crime, Policing, and Fire group. The prioritisation matrix has enabled the group to focus its efforts on the high-materiality, high-volatility items, leading to improved forecasting, identifying underspend, and ultimately reprioritising spending more quickly.
Elsewhere, Wilson and her counterparts are using the improvements to identify slippage in major projects at an early stage and the effect that might have on future years’ budgets, which is driving them towards more medium-term planning.

“If, for example, the first iteration of an IT project design doesn’t work, or you hit a programming snag, you have a delay, which may mean £20 million of the allotted £50 million can’t be spent this year. You’ve potentially got £20 million that you’re going to have to spend next year which is not budgeted for.

“Then you ask, ‘What are the things we’ve got planned to start next year? Can we move some of them into this year to take up that slack?’ Project 2 may not have been scheduled to start until April because the money was not available until then. But it might now be able to start in October and utilise some of the funding allotted to Project 1 that cannot be used this year because of the delay.

“So, not only do we ensure a value for money spend in-year, but we also alleviate pressure on future years, ensuring we still deliver all our projects.”

KNOWLEDGE SHARING
To ensure the ongoing development of knowledge on forecasting and the lasting impact and legacy of the project, Wilson convenes the government-wide forecasting and risk knowledge network. The network, which includes finance representatives and anybody in the department who looks after forecasting, meets every six weeks to share resources and best practice and promote collaboration between departments.

The group has been looking at how the toolkit is being used and what improvements could be made. Wilson also discovered through the network that different departments had different training materials, so she was able to draw on the best elements of each to contribute to the Government Finance Academy work on building forecasting training.

Lessons learnt:

- **Pitfall:** Slow preparation.
  **Solution:** A focus on the efficiency and effectiveness of core processes supported by quality people and technology.

- **Pitfall:** Optimism bias.
  **Solution:** Establishment of an open and honest culture based around accurate forecasting used as a course correction tool.

- **Pitfall:** Lack of support for assumptions.
  **Solution:** Clear explanations for assumptions made based on sound evidence of cost behaviours.

- **Pitfall:** Poor data quality.
  **Solution:** Consolidation of data sources and education of preparers to ensure a single version of the truth.

- **Pitfall:** Lack of ownership and accountability.
  **Solution:** Accountability assigned alongside budget management responsibilities.

- **Pitfall:** Misalignment of incentives.
  **Solution:** Alignment of forecasting to operational model and business and strategic focus (including the costs that are material and volatile).

- **Pitfall:** Lack of forecasting skills in team.
  **Solution:** Focused training and recruitment to enhance forecasting skills base.

- **Pitfall:** Lack of understanding of risk and volatility in the forecast.
  **Solution:** Investigation and clear documentation into the risks, volatility, and sensitivities of key cost behaviours presented alongside the forecast.

Source: Financial Management Reform Forecasting and Risk toolkit.
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STEWARDSHIP OF A $1 BILLION BUDGET

A UN agency improved governance and transparency across a network of 140 offices worldwide so donors could see how funds are used and programme goals are achieved.

By Samantha White
ubhash Gupta, FCMA, CGMA, spent 15 years as CFO of the United Nations Population Fund (UNFPA), an organisation that implements development programmes to support women’s rights and maternal health around the world.

Until the conclusion of his most recent assignment in October 2016, Gupta was responsible for global operations support and accountable for $1 billion of resources for the delivery of projects in often high-risk environments and regions with weak governance cultures.

The level of accountability demanded both within, and of, the UN is very high. Its work is primarily funded by aid money, and donor governments and their tax-paying citizens are increasingly demanding detailed evidence of how those funds are being used and the results achieved by the programmes.

To ensure the correct stewardship of these funds, and ultimately that the UNFPA’s vital development work, which is driven by the Sustainable Development Goals (SDGs), can continue to be carried out in the field, Gupta put several measures in place to improve governance. He describes the critical success factors:

**Capacity building.** “The capacity building of national partners has always been the priority of development work carried out by the UNFPA, thereby focusing on technical support, policy, and advocacy with the national governments in the implementation of programmes and projects,” Gupta said. One important factor in successfully overseeing global operations spread across 140 field, regional, and country offices was understanding that the capacity of local staff varied from location to location. Gupta, who was based at UN headquarters in New York City, looked at how the organisation could bridge those gaps and build capacity. Appropriate training was provided, and performance contracts were drawn up at the beginning of each year to promote understanding of, and compliance with, policies and procedures. Rewarding those who do the job well and showcasing their work also proved effective.

**Process review.** Gupta encouraged constant process review, gathering feedback from the operations manager in each location, to identify any impediments there may be to internal controls. Reviews also considered how to ensure that alerts were built into the enterprise resource planning (ERP) system to prevent fraud or wrongdoing.

To ensure high-risk items were properly scrutinised before payment left the organisation, the technology flagged up some high-value transactions for 24-hour review by Gupta and his team.

**Adapt technology to meet your needs.** The most important measure was a very strong ERP system, Gupta said. Embracing technology has enabled the UN to accomplish greater transparency, and greater assurance in terms of adherence to policies and procedures, since checks and balances, controls, and alerts are built in to the ERP system. Data are generated in real time and made available to multiple stakeholders, whether for audit purposes, disclosure, or review. Rather than waiting months for a hard copy of a financial report, donors can get an instant update on the progress of a project, review the expenditure, and so on.

**Whistleblowing procedures.** Vendors were screened to identify any bribery or corruption risks. “A whistleblowing system was crucial to ensuring that the vendors that we work with comply with the best of international standards, as per the UN Global Compact,” Gupta said.

Any organisation seeking to do business with the UN system is encouraged to sign the Global Compact to adhere to certain standards of integrity, recordkeeping, and transparency. This provides a minimum assurance that it is a credible organisation that has policies and procedures in place against bribery and corruption.

Anyone who suspects wrongdoing on the part of a UN organisation or its partners can report this anonymously through the UN organisation’s website. Offices are obliged to investigate any credible reports received.

**Adapt policy to local context.** In the field of development work, there can be situations where the level of governance exhibited by national partners may not be able to provide the required assurances, Gupta said. As a strong developmental partner, the UNFPA still provided funds for the implementation of projects, but Gupta and his team had to make sure that there were additional checks and balances in place to match the local context in order to ensure that

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**Traditional corporate top-down enterprise risk management models cannot work in the UN,** Gupta said.
the fiduciary responsibility vested in the organisation was fully met.

“I did not sit in my four walls in New York,” said Gupta, who prior to this role was financial controller at the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA). “I have been to remote corners, from North Korea to Myanmar, Afghanistan, Swaziland, Sudan, to understand what the ground realities are and how we can support them either in the field or frame our own policies in such a way that they can help in taking forward the programme of work with various national governments.

“We came up with a unique model of policy formulation whereby the policies, internal control framework, and the [enterprise resource management] were intertwined. Each policy had a basic framework that could be applied across the board. This means that there is a segregation of duty, for example, for internal controls.”

Beyond that basic framework, some aspects would vary depending on the risk identified in that category in the particular country or region, such as the number of approvals needed, the transaction limit, and so on.

“We configured the workflow in the ERP system to allow for an enhanced level of approvals either locally or at a nearby regional, sub-regional office on a variety of financial transactions, such as payments to staff, vendors, and governments for programme implementation. All of these would be processed according to the workflow design for that office, which was based on the level of risk identified,” Gupta said.

“Where you can rely on the local governance, you would apply a higher threshold for local procurement: in those countries where the risk is high, you would apply a lower threshold.”

Every policy has a process flow and control activities embedded within it. “Where the risk is high, you would ensure that the control activity is carried out without exception, even if the project gets delayed,” he said. “In those locations where you have better reliance on the control environment, you could allow a particular control activity not to be performed in order to expedite the process.”

**Encourage bottom-up enterprise risk management.** Traditional corporate top-down enterprise risk management (ERM) models cannot work in the UN, Gupta said. “It is very much field-based, and the risk levels are so diverse that unless you have an understanding of the local situation, you will probably be heading in the wrong direction,” he said.

On the risk register, members of staff across the organisation and around the world were able to input their rating of each risk to provide a holistic view. Participants could also flag a policy or control activity which was in need of strengthening, or if the internal control framework for that office needed to be reviewed. Staff also had the opportunity to suggest ways to mitigate those risks.

One of the key issues flagged through this bottom-up ERM model related to the organisation’s decentralised recruitment policy. It emerged that some local interests were trying to influence local hiring decisions. In those situations, a different model was needed, and hiring authority was transferred to New York to ensure full transparency in the decision-making process.

On one hand this meant that appointments could not be influenced by the local forces likely at play, and on the other, it safeguarded field staff from such demands. “Governments have the authority to declare international staff persona-non-grata and ask them to leave the country within 24 hours,” Gupta said. “You don’t want to encounter that situation.”

**Currency risk and cash flow management.** The UNFPA budget is denominated in US dollars, but 60% of receipts consist of other currencies. Thus, the amount, as well as the timing, of these receipts could not be predicted with certainty.

Under the financial regulations, borrowing was not permissible, so ensuring that global programme delivery and operations continued uninterrupted without allowing any shortfall in funds posed a significant challenge. All this required meticulous cash flow forecasting on a regular basis, engaging the various donors and governments, and a sound currency-hedging programme, Gupta said.

*Samantha White is a CGMA Magazine senior editor.*
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HOW ACCOUNTING CAN EMPOWER BETTER PROJECT MANAGEMENT

By participating in project management, accountants can become better advocates for good financial, data, and process management practices.

By Donny Shimamoto, CPA/CITP, CGMA
Accountants are a natural ally for anyone hoping to get things done within an organisation. They know the transaction flows of the organisation and the risks and controls around its processes, and that knowledge can provide a valuable road map for those tasked with product design, process improvement, and more.

To maximise their utility, accountants need to speak one of the most important languages of modern business. They need to understand project management, the methodology by which many business leaders enact business improvements and technology innovation.

Accountants who learn the flow and terminology of project work are better able to serve as business partners for teams outside of finance, and they’ll be better positioned to advocate for good financial, data, and process management practices.

In short, those in finance who understand project management will be seen more like enablers and less like gatekeepers.

FOLLOWING THE PROJECT FLOW

A project is defined as a temporary endeavour that creates a unique product, service, or result. That could be a brand-new consumer product, an enhancement, or simply a process improvement.

A project represents change, and change brings risk. Our job, as accountants, is not to minimise that risk but to help manage it — and project management methodologies aim to do that by mapping out the elements of the project, identifying their relationships, and evaluating the potential risks that come with them.

The document that encapsulates all that crucial information is the project charter, created at the start of each project — and it’s the key to understanding the process to come. The charter is essentially a contract between the project team and the rest of the business. Just as you use contracts to manage outside vendors’ performance, you can use this document to set realistic and enforceable expectations within the organisation.

In most cases the accounting function isn’t in charge of these projects, so the management accountant won’t be the one actually drafting the charter. Instead, your role is to objectively review the information and assumptions that are going into this document.

Rather than coming down as the gatekeeper at the end of this process, you can be more effective by working earlier with a project manager to ensure that good projects get through the gates. The timing of your involvement will vary from project to project, but it’s ideal to join during or before the drafting of the project charter.

The project’s risks become more obvious — and more real — as the actual work of the project starts.
MANAGING PROJECT RISK

No project charter, no matter how good it is, can predict all of the causes and effects at play around a project. Even if it did, someone would still have to manage those risks.

These project risks become more obvious – and more real – as the actual work of the project starts. For example, an architect might forget to make a public building accessible to people with disabilities, or an IT person might omit approval threshold controls from a procurement application.

Anything can happen, and that means that the accountant’s job only becomes more important as the actual project gets underway.

A few key strategies will help guide you along the way:

- Stay involved with the project. Attend meetings. Ask to be included with correspondence, and follow along with the team. Monitoring the work as it happens will give you a better understanding of each component’s context and help you identify emerging risks. Your degree of involvement will change with the project — more risk, more involvement — but there’s often a sweet spot between “uninterested” and “over-controlling.” Your goal is to be accessible and present while respecting your role as a supporter and guide.

- Think like an auditor and ask the right questions. Stakeholders and subject-matter experts can help you identify the relevant business rules and controls that apply to each segment of the project, which you can then use to “audit” components as they’re completed. For example, an operational person may know that there is a potential problem when a particular ratio goes above 10%, and definitely a problem when the ratio goes above 20%. A detective control could be designed into the project to appropriately flag transactions that reach those ratios.

- Beware of workload spikes around major deliverables. If you only get involved as the deliverable approaches, you’re going to get hit with a pile of work once the deliverable is ready, and you may then be seen as a bottleneck to completion. Continued involvement with the project will minimise the amount of backtracking, retrofitting, and panicking you have to do – all of which, by the way, becomes costlier as the project progresses.

DEALING WITH SCOPE CREEP

Almost every project will run into “scope creep”, the phenomenon that drives projects outside of their original scope or violates the assumptions and constraints described in the charter.

As a project evolves, you’re going to encounter unexpected scenarios, find gaps in the original plan, and hear demands for more features without a corresponding increase in resources.

Maybe your credit card processing company now requires a new level of security. Maybe a whimsical idea has made its way down from the C-suite. The management accountant’s job through all this is to uphold the project charter – the original contract between the project team and the rest of the business. But that doesn’t mean that the project charter is unchangeable. When a change is properly justified, it can add value to a project.

So your role is to act as the validator, treating each proposal similarly to change orders submitted by vendors.

Think of project components in terms of “must have”, “should have”, and “nice to have”. If a project component is in one of the latter two categories, then the project team needs to provide an assessment of the value the change would provide versus the additional effort or cost.

If the benefits don’t justify the cost, then perhaps the scope change should be denied. Otherwise, the threat of “scope creep” may draw the project away from its original purpose and beyond its budget. Alternatively, a request for a...
Charter chatter

Charters vary by project, but the general template includes these details:

- A list of your own key project team members and their roles, as well as the senior-level sponsors who have approved and will support the project.
- Your stakeholders. These are the people who will be directly affected and who have the power to affect your project. They often will have a role in accepting the deliverable. This might include your management, accounting, and IT teams. These people can influence your project for better or for worse. By identifying them early, you can keep them on board with the project.
- The objectives or outcomes that will determine whether the project is successful. Outcomes are about a desired state, or a condition, such as the reduction of risk or a better understanding of the cost structure. You may also include value statements, describing how accomplishing that objective will benefit the organisation.
- The specific goals that will serve as the project’s milestones. For example, to reduce risk, you might need to create a new way to assess contracts. These goals in turn can be mapped to the deliverables that you’ll create at various stages. For example, you might need a proof of concept early in the process. These deliverable dates can be detailed in a summary schedule.
- The assumptions governing the project. An assumption is an external factor, outside of your control, that you’re dependent upon. This can include your financials, but you also need to document the other resources that you’ll need. For example, your project may need an employee from IT. You don’t control IT, so you need to document that assumption. You’ll also want to list any required approvals and create a summary budget.
- Constraints. These are limits on your work, such as a lack of available employee hours, a hard deadline, or a spending limit. Putting these factors in your charter can help to communicate the limitations that the project is operating under.
- Interdependencies. These show how a project interacts with other work going on in the organisation. Maybe your work can’t proceed until a piece of software is updated. On the tail end, other projects might be waiting on yours to be completed. If they’re not surfaced, these relationships can allow for disastrous ripple effects.
- The risks the project faces and the relevant mitigation plans. This is obviously the management accountant’s specialty, and documenting these risks can steer your project clear of undesirable surprises.

major change in direction might signal that the project itself is misaligned with the company’s current direction and may no longer be necessary.

Sometimes this oversight role can put a management accountant in an awkward situation. Requests for a change in scope or direction might have a lot of momentum behind them when they cross your desk. But if you’re involved early and you keep your perspective objective and fact-based, then you’ll help ensure the project is oriented with the best results for the organisation in mind.

CLOSING THE PROJECT

People tend to forget the closing phase of a project’s lifecycle, but it’s crucial to improving the organisation as a whole.

Often, the focus at the end is on getting sign-offs from sponsors and handing over operating procedures to operations. However, the most important aspect of closing is capturing the lessons learned. This is when you can pinpoint problems in your project processes, evaluate the project as a whole, and ensure that the knowledge you’ve gained from the project isn’t lost.

Management accountants in particular can use this time to assess whether and how risk management has been enacted at the project level. Did you help the project move faster and more smoothly through the organisation? Or were you a gatekeeper who held things up?

Donny Shimamoto, CPA/CITP, CGMA, is the founder and managing director of IntrapriseTechKnowlogies, a Hawaii-based CPA firm focused on organisational development and advisory services.
NEGOTIATION TIPS FOR EXPATRIATES

Before taking a role in a different country, consider these 12 factors that could affect your compensation and quality of life.

By Neil Amato
The professional and personal benefits of taking an overseas role are numerous, and international experience is increasingly sought after amongst senior finance leaders. However, given the complexity and costs involved in moving and living overseas, prospective expatriates should consider a broader range of topics when assessing their compensation than they would during a normal remuneration negotiation.

Whether relocating within a multinational organisation with well-defined expatriate policies or moving to an overseas company as its first foreign employee, negotiating and evaluating your remuneration requires a deft touch.

Here are a few things to bear in mind:

1. **Preview the country:** If you’re moving to a new country, you probably have plenty of questions. Before accepting a role overseas, a candidate should request a paid visit, possibly with a spouse, to learn more about the country, said Amal Ratnayake, FCMA, CGMA, the CFO at officialCOMMUNITY, an entertainment and media firm in Toronto.

2. **An exit strategy:** Before leaving your current role, if transferring within the same company, have an agreement about the length of time you are expected to work abroad. Perhaps more important, know what the company’s plan is upon your return. “Generally, this sort of assignment is for a set period of time,” Ratnayake said. “You’re not going to be gone forever. When you come back, is there going to be a role open for you?”

Ratnayake, a native of Sri Lanka, worked as an expat in the Middle East in the 1990s and is now a Canadian citizen. He also advised negotiating a termination benefit. “What happens if six months down the road, it doesn’t work out for whatever reason?” he said. “You have to come back to your country of origin and look for a job.”

3. **Effective tax rate:** Many big organisations offer some form of tax equalisation, so their intra-company transferees’ effective tax rate is the same as in their home country. If tax equalisation is not offered, find out what your tax rate will be (including social security and other local income taxes) to allow a proper assessment of your take-home pay.

4. **Currency:** Assess your exposure to currency fluctuations, especially if you will be paid in a historically volatile currency. Consider asking to be paid in a “hard” currency (such as dollars or euros). Or build pay adjustments into your contract if the exchange rate moves beyond certain limits. At a minimum, ensure you are aware of obligations, such as rent or school fees, you will be taking on in currencies other than the one in which you will be paid.

5. **Housing:** If your employer will contribute towards your housing costs, confirm in advance how housing assistance will be provided. Will the company provide a rent stipend or offer different accommodation options and pay the cost directly? If you will be responsible for contracting directly with your landlord, find out what upfront payments are customary in the local market upon signing a lease, and consider how you would pay a sizeable deposit in local currency, potentially before you have received your first paycheck.

6. **Medical insurance:** Insurance should be a key part of any expatriate package, especially in countries where health care without insurance is expensive or where access to high-quality medical treatment is limited. Ensure that the policy offered meets the needs of you and your family.

The following questions are worth asking: Can you use any care provider, or does the insurance mandate certain physicians? Can you be sure they will speak your language? Does it include services beyond primary or emergency care, such as dental or physiotherapy?

Expats should negotiate whether they can return to their home country, or pick another country, for more serious medical issues such as surgical procedures, as the quality of health care varies greatly among countries, Ratnayake said.

7. **Language training tuition:** If you are moving to a country where you do not speak the language, consider the professional and social value of language instruction. If your employer offers to provide or subsidise lessons, it is worth being specific: How many classes a week will it provide? Will the company provide lessons indefinitely? If not, for how long? Would it consider paying for a month or two of full-time intensive lessons before you start?
Piotr Malinowski, ACMA, CGMA, a finance project manager at Virgin Media in northern England, said language can be a significant issue. Malinowski is from Poland, and during a stint in Luxembourg with a former employer, most co-workers often spoke French, which he didn’t understand. Not speaking the local language can be problematic in many ways, he said, beyond just alienation.

8 **Visas and paperwork:** Most employers will pay for your employment visa. In addition, consider requesting the services of a relocation agent to help navigate local bureaucracy such as obtaining a tax identification number or a local driving licence, negotiating an apartment lease, or opening a bank account. If the local language is new to you, professional assistance is particularly valuable.

9 **Pension contributions:** If you intend to be abroad for only a couple years, there is likely little value in paying into a local pension. If you are moving within the same company, you may be able to continue contributing to your existing plan. If not, consider asking your employer for a cash payment in lieu of pension contributions which you can pay into a pension plan at home.

10 **Tax preparation:** Preparing foreign tax returns, especially in an unfamiliar language, can be “daunting,” said Malinowski, so assistance with local tax preparation can be invaluable. If possible, contact a tax adviser shortly after arriving to learn what paperwork you should retain throughout the year and any local tax rules to keep in mind, such as how foreign income is taxed on things such as income from a rented house or capital gains on a property sale.

And don’t forget about the possibility of paying taxes in your home country or that of your employer. “The risk is double taxation,” Ratnayake said. “Your new compensation should cover that extra expense if there is one.”

11 **Relocation costs:** Shipping furniture and other personal items is expensive, so see if your employer will pay for all or part of these costs. Additionally, enquire about a “disturbance allowance” to cover items such as socket converters and new electrical goods to replace those that will not work with the voltage in your new country. Remember to consider the cost of shipping your belongings home when you leave. Your employer is likely to be less inclined to help with these costs if it was not agreed upfront.

Also bear in mind that international shipping can take months. Will your employer pay for rented furniture until your containers arrive? And, if your expat term is short, and you plan to return to your existing residence 12 or 18 months later, consider negotiating for upkeep of that residence.

12 **Travel home:** Many overseas placements include paying for occasional travel back to your home country. It is worth being specific: How many tickets will be offered per year? Will they include your family? Can you travel to a country other than your “home” base? Are tickets transferrable to friends and family coming to visit?

As with any negotiation, it is unlikely that your prospective employer will agree to everything, but being aware of these points will allow a better assessment of the full value of the package on offer and a more informed decision about whether this is the right role for you.

Neil Amato is a CGMA Magazine senior editor.
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MANAGING UP: HOW TO GET THE MOST FROM YOUR BOSS

Consider what, how, and when you communicate with your manager to build a more constructive relationship.

By Jackie Fitzgerald, ACMA, CGMA

Developing a good relationship with those in positions of authority and influence is vital to our daily happiness and long-term success.

You have influence over how well your relationship with your manager works, and you can and should take ownership of it, especially if you are part of a large team who are all competing for the boss’s limited time. It takes just a little thought and effort to get started. Here are some tips for successfully managing up.

Start talking. Trust and the ability to communicate effectively are the foundations of good relationships. But we can quickly fall into patterns of behaviour that may not be very helpful. A common pattern is not wanting to raise issues or concerns that we think may be difficult or place us at a disadvantage in the relationship. Falling into this trap can compound problems, so make sure you’re clear on what your boss expects from you, and seek regular feedback on how you’re doing.

Base your understanding of what your boss expects on facts, not assumptions. If you’re not sure about something, ask. If you’re getting mixed messages, clarify them.

Set out your needs clearly. Don’t wait for your boss to initiate a conversation. When you ask for help or information, be clear about what you need, why, and by when. When you discuss a situation, give your manager a summary of the problem. Describe the alternative solutions you have explored. Make recommendations if you can. Then state what you need from him or her. In other words, make it as easy as possible for your boss to help you.

Think about context. Your boss will be juggling responsibilities, some of which you won’t know about. Think carefully about what your boss needs to know about you, your challenges, and your successes.

Is it relevant and of interest to your boss, right now? Can it wait? If you can’t resolve the problem on your own, arrange a conversation when it suits your boss. Don’t leave it until a crisis point.

Avoid surprises by scheduling regular meetings to keep your manager up to date. Find out what’s forthcoming and how you can help your boss. By showing an interest in areas of his or her job that don’t directly affect you, you’ll signal that you’re aware that he or she has other responsibilities and are willing to help with them.

Work with, not against, your boss. You and your boss should work toward a mutually beneficial relationship. A good manager provides guidance, wisdom, experience, and support. Your role is to learn, do a good job, and support him or her.

Anticipating problems, finding solutions, and doing a little bit more than is expected will help both of you progress.

Take responsibility for your contribution to the relationship. Being proactive, considerate, and careful in what, how, and when you communicate with your boss, you should soon find that you develop a relationship that benefits the organisation, each other, and your career.

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