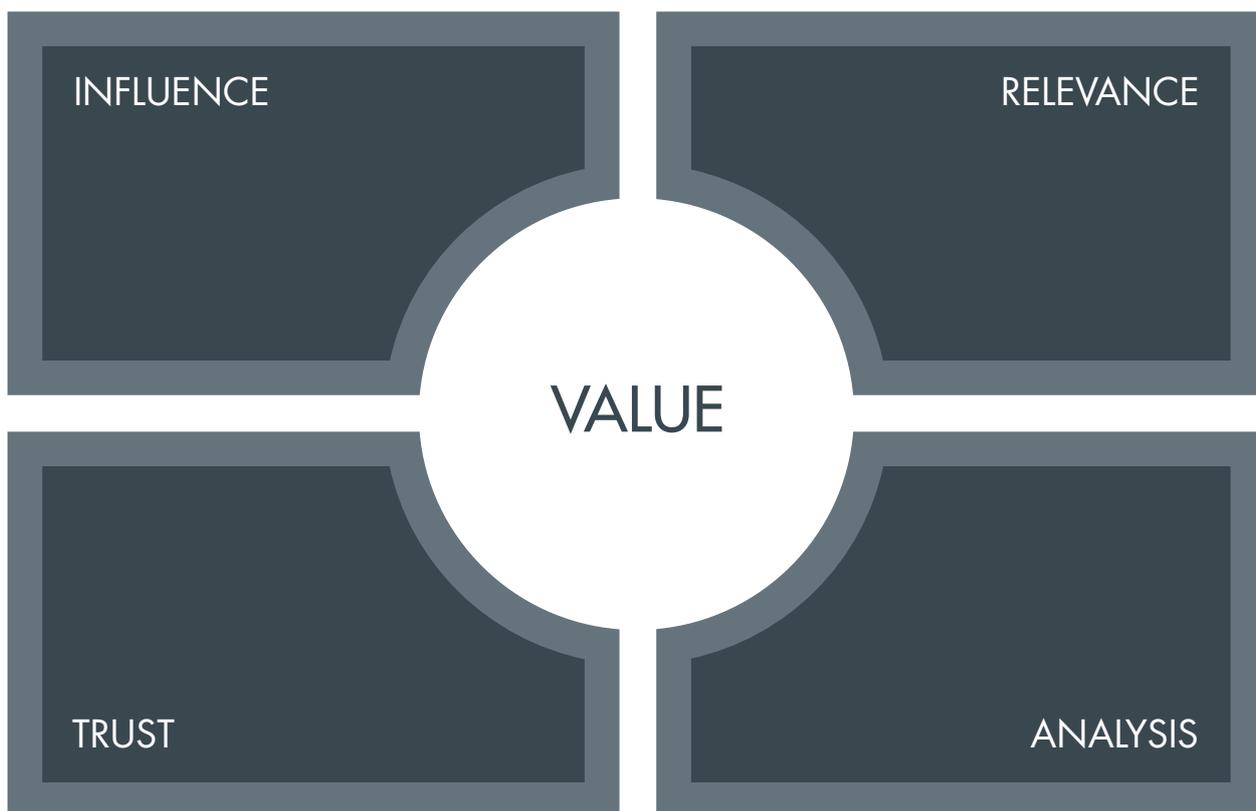


# GLOBAL MANAGEMENT ACCOUNTING PRINCIPLES<sup>®</sup>

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Effective management accounting:  
Improving decisions and building  
successful organisations



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Two of the world's most prestigious accounting bodies, AICPA and CIMA, have formed a joint venture to establish the Chartered Global Management Accountant® (CGMA®) designation to elevate and build recognition of the profession of management accounting. This international designation recognises the most talented and committed management accountants with the discipline and skill to drive strong business performance. CGMA designation holders are either CPAs with qualifying management accounting experience or associate or fellow members of the Chartered Institute of Management Accountants.

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# CONTENTS

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1. Introduction	4
Improving decision-making	5
Purpose	7
Intended audience	7
Success factors	7
<hr/>	
2. The Global Management Accounting Principles	8
<b>Communication provides insight that is influential</b>	<b>9</b>
<b>Information is relevant</b>	<b>10</b>
<b>Impact on value is analysed</b>	<b>11</b>
<b>Stewardship builds trust</b>	<b>11</b>
<hr/>	
3. How The Global Management Accounting Principles are applied	13
People	13
Performance	15
Practices	17
<hr/>	
4. Application to performance management	18
<hr/>	
5. Application to practices	23
Cost transformation and management	28
External reporting	29
Financial strategy	30
Internal control	32
Investment appraisal	33
Management and budgetary control	35
Price, discount and product decisions	36
Project management	38
Regulatory adherence and compliance	39
Resource management	40
Risk management	41
Strategic tax management	43
Treasury and cash management	44
Internal audit	46
<hr/>	
6. Updates and related matters	48
<hr/>	
7. Glossary	49

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## LIST OF FIGURES

---

<b>Figure 1</b>	Constituents of an effective management accounting function	4
<b>Figure 2</b>	The Global Management Accounting Principles	5
<b>Figure 3</b>	The Global Management Accounting Principles (detailed)	9
<b>Figure 4</b>	The CGMA competency framework	13
<b>Figure 5</b>	The changing role of management accountants	14
<b>Figure 6</b>	Management accounting linking strategy to the business model	15
<b>Box 1</b>	Relationships, resources and risks	16
<b>Box 2</b>	Data plans	19
<b>Table 1</b>	Application of the Global Management Accounting Principles to the performance management system	21-22
<b>Figure 7</b>	The key activities of a management accounting function	23
<b>Box 3</b>	Management accounting tools	24
<b>Table 2</b>	Core practice areas of the management accounting function	25-27

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# EXECUTIVE SUMMARY

Quality decision making has never been more important – or more difficult.

Competition is relentless, as new innovations and innovators daily disrupt the status quo. The volume and velocity of unstructured data is increasing complexity.

Impulse is taking over insight as organisations struggle to keep pace.

The Global Management Accounting Principles were created for this era of business. Management accounting is at the heart of quality decision making, because it brings to the fore the most relevant information and analysis to generate and preserve value. The Principles guide best practice in management accounting to ensure difficult decisions can be taken which will drive sustainable value.

They reflect the perspective of CEOs, CFOs, academics and other professionals contributed during a global consultation across five continents. They were prepared by the American Institute of CPAs (AICPA) and Chartered Institute of Management Accountants (CIMA) – which together represent more than 600,000 members and students in 177 countries. There are four principles focused on four outcomes:

## Influence

*Communication provides insight that is influential.* Management accounting begins and ends with conversations. The Principles have been designed to help organisations cut through silos and encourage integrated thinking, leading to better decision-making.

## Relevance

*Information is relevant.* Management accounting makes relevant information available to decision-makers when they need it. The Principles provide guidance on identifying past, present and future information, including financial and non-financial data from internal and external sources. This includes social, environmental and economic data.

## Analysis

*Impact on value is analysed.* Management accounting connects the organisation's strategy to its business model. This Principle helps organisations to simulate different scenarios to understand their impact on generating and preserving value.

## Trust

*Stewardship builds trust.* Accountability and scrutiny make the decision-making process more objective. Balancing short-term commercial interests against long run value for stakeholders enhances credibility and trust.

The Principles are intended to be universally applicable to help organisations large and small, public and private extract value from the increasing volume of available information. They are aimed at chief executives, chief financial officers and other members of boards of directors who have oversight of their organisations' performance. Investors and other stakeholders will also find them useful.

This document details how the four Principles can be applied across 14 key activities of the management accounting function. It also provides guidance about the core competencies required of management accounting professionals to help organisations create, execute and refine their strategies.

The AICPA and CIMA are encouraging widespread adoption of the Global Management Accounting Principles. They would also like users to contribute to the constant refinement of the Principles to maintain their relevance for the future.

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# 1. INTRODUCTION

This document details the first universal set of Global Management Accounting Principles to guide management accounting practice. It is the result of research from across 20 countries in five continents. This included a 90-day public consultation, in which more than 400 people participated, representing organisations of many different sizes and across a range of industries. Public, as well as private, sector representation has been included so that the Principles have universal applicability.\*

The Principles are intended to help organisations succeed. Management accounting alone cannot resolve the full range of issues that organisations face. It does, however, offer an approach to organisational management that aids the development and delivery of strategy to create sustainable value.

All organisations share an ambition to be successful over time. Successful organisations have effective management accounting functions. It is the combination of competent people, clear Principles, well managed performance and robust practices that make a management accounting function effective.

This is demonstrated in Figure 1.

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FIGURE 1: Constituents of an effective management accounting function



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\* An accompanying white paper details the changes that were made to the consultation draft in arriving at this version which is available at [www.cgma.org/principles](http://www.cgma.org/principles)

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## Improving decision-making

To be confident of success, organisations need to make better quality decisions. Globalisation and technological progress are making this more complicated. Long-term competitive advantage is being undermined as both the volume and velocity of information flows increase.

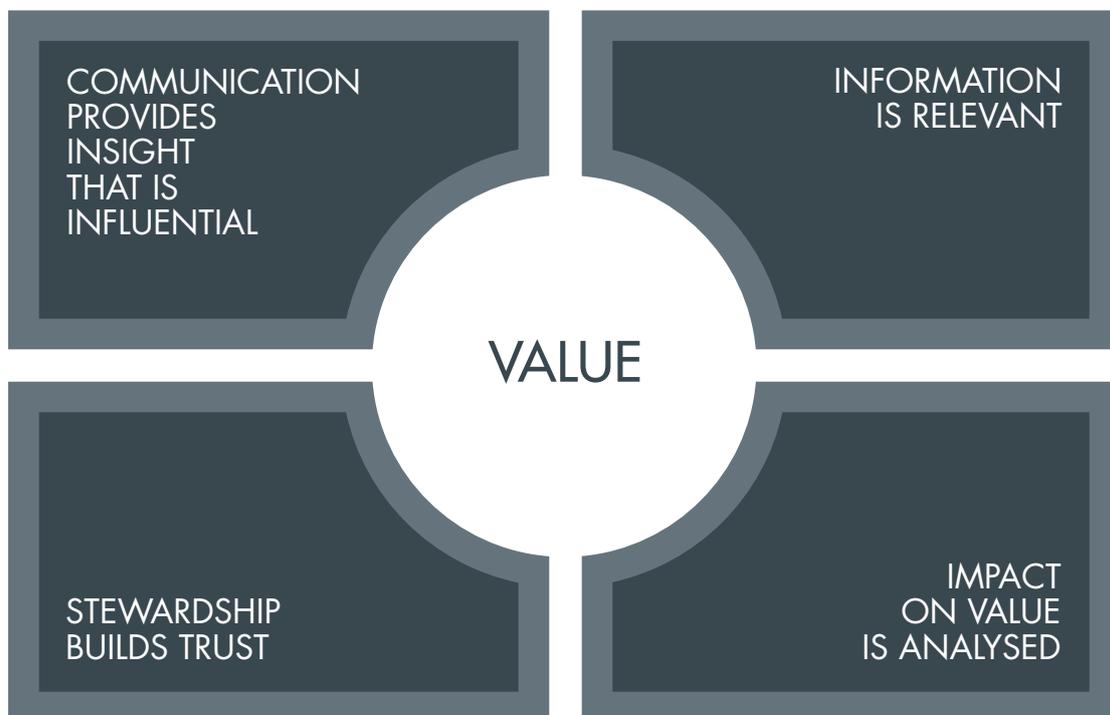
An effective management accounting function improves decision-making in organisations. This is because its people communicate decision-relevant insight and analysis to every decision-maker in the organisation, while being alert to the organisation's social and environmental duties. This is the foundation of the four Principles which set out the fundamental values, qualities, norms and features that represent management accounting. These are shown in Figure 2 and are discussed in detail in **Section 2**.

Organisations large and small, public and private compete in an increasingly inter-connected and international market. The need to professionalise the process of decision-making has never been so crucial or so difficult:

- 47% of Asia's CFOs say decision-making is hindered by information overload.<sup>1</sup>
- The International Data Corporation estimates that by 2020 business transactions on the internet – business-to-business and business-to-consumer – will reach 450 billion a day.<sup>2</sup>
- Google's Eric Schmidt claims that society now creates as much new information every two days, as it did from the dawn of civilization to 2003.<sup>3</sup>
- The average consumer is faced with making more than 70 decisions a day.<sup>4</sup>

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FIGURE 2: The Global Management Accounting Principles



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An abundance of information, rather than being liberating can actually be debilitating for an organisation. It can lead to decision paralysis or hasty action. Too many organisations incur the unnecessary costs of bad decisions, or worse still, waste resources on justifying poor decisions. In so doing, they also forgo the benefits of not having taken the good decision.

Conventionally, more information meant less uncertainty. But this relationship is changing. Despite information processing capabilities improving, much of the increased volume of data is unstructured.

It is therefore unsurprising that the United Nation's Millennium Project has listed uncertainty and the capacity to decide as one of the 15 most important global challenges currently facing humanity.<sup>5</sup>

Available information has never been more plentiful, complex, unstructured or more difficult to interpret. Organisations must respond appropriately to risks and protect the value they generate.

As Herbert Hawkes, former Dean of Columbia College, said, 'Half the worry in the world is caused by people trying to make decisions before they have sufficient knowledge on which to base them'.<sup>6</sup> Data, without analysis, insight and communication is not knowledge, because numbers usually require explanation. Management accounting helps organisations translate numbers into meaningful narrative analysis.

To achieve success, particularly when uncertainty is high, organisations must develop an effective management accounting function that complements their financial accounting system to provide such analysis. Financial accounting information, though essential, does not provide a sufficient knowledge base for making decisions about the future. This is because its focus is on past activity. Management accounting facilitates integrated thinking so that the full range of decision-relevant information is considered.

It is not just managers who need to make decisions when certainty about outcomes is low. Distributed decision-making means employees at all levels are also involved, each bringing their own perspective, experience and bias to the process. Investors and other stakeholders also make decisions about the organisation based on external reports. Because decision-making approaches and styles vary between individuals and organisations, this document does not assume a linear decision-making process.

Good management accounting improves decision-making because it extracts value from information. It places the best available evidence and forecasted information at the centre of the decision-making process, providing more objective insight on which to reach conclusions or base judgements.

Being forward and outward-looking, management accounting brings structured solutions to unstructured problems. It provides people with decision-relevant data, rigorous analysis and informed judgement to make better decisions and to communicate them with impact. Where uncertainty is high, management accounting provides forecasts, which can be based on an extensive range of information. This might include prior experience and institutional memory that provide opportunities for continuous improvement.

However, the practice of management accounting varies across different organisations. CIMA and the AICPA have published the Principles to help organisations build effective management accounting functions.

Assessing the skills, competencies, performance management and practices of an organisation's current management accounting function, relative to the Principles, provides an indication of how well the current function is meeting the organisation's needs. It also enables gaps to be identified and action taken to close them. This is the case whether they are gaps in the skills of personnel, technological deficiencies or flaws in data and information systems.

A management accounting strategy should be developed setting out measures to close the gaps. This will include details of:

- organisational priorities
- the needs of management accounting function customers
- the current management accounting system
- deficiencies and opportunities
- employees and technology
- investment timescales
- performance measures.

We are developing an online diagnostic tool to help organisations benchmark their current management accounting function against the Principles.

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## Purpose

The purpose of the Global Management Accounting Principles is to support CEOs, CFOs and boards of directors in benchmarking and improving their management accounting systems. This will help them to meet the needs of their organisations, effectively and efficiently to create and protect sustainable value. This document provides a reference for all management accountants to check that they are adding value for their internal and external customers.

The Principles help organisations to make better decisions, to respond appropriately to the risks they face and to protect the value they generate. Their purpose is to:

- outline the fundamental values and qualities that represent management accounting
- improve understanding of the management accounting profession
- increase recognition of the crucial role for management accounting in organisations and that it is utilised at the highest levels
- enable management accounting potential to be realised.

## Intended audiences

This document will interest members of boards of directors who have oversight of their organisations' performance, and CEOs and their senior management teams who are responsible for leading organisations to sustainable success.

CFOs, senior finance professionals and non-executive directors with strategic and financial oversight (e.g. chair of the audit committee) investors and other stakeholders should also find the Principles useful. They provide a threshold against which to benchmark management accounting practices and processes, and identify where improvements are needed.

The rest of this document explains the context for the Principles and how they can be applied in the world of business (including the public sector).

**Section 3** defines the profession and outlines the skills and competencies of management accountants. In **Section 4**, the Principles are applied to the development, execution and refinement of strategy (the performance management system). In **Section 5**, they are applied to key activities of the management accounting function.

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## 2. THE GLOBAL MANAGEMENT ACCOUNTING PRINCIPLES

Management accounting is the sourcing, analysis, communication and use of decision-relevant financial and non-financial information to generate and preserve value for organisations.

As a profession, management accounting requires a thorough understanding of the business (including the business model) and its operating environment so that organisational risks and opportunities are known. By managing and responding appropriately to risks, organisations can exploit opportunities and generate value for stakeholders over time.

Management accounting lies at the heart of an organisation, at the crossroads between finance and management. It provides structured solutions to unstructured problems, by translating the complex into the simple and by making the simple compelling.

Bringing together both financial and non-financial considerations, it is the discipline that should be used to run the organisation, to control and improve performance.

The business model is the means by which the organisation generates value. Because management accounting requires a thorough understanding of the business model, as well as the organisation's market and macro-economic environment, it contributes to sustainable success.

Management accounting helps organisations make better decisions by extracting value from information. Rooting decisions in evidence, or basing them on informed judgement rather than conjecture, makes sustainable success more achievable. All the Global Management Accounting Principles flow from this ambition.

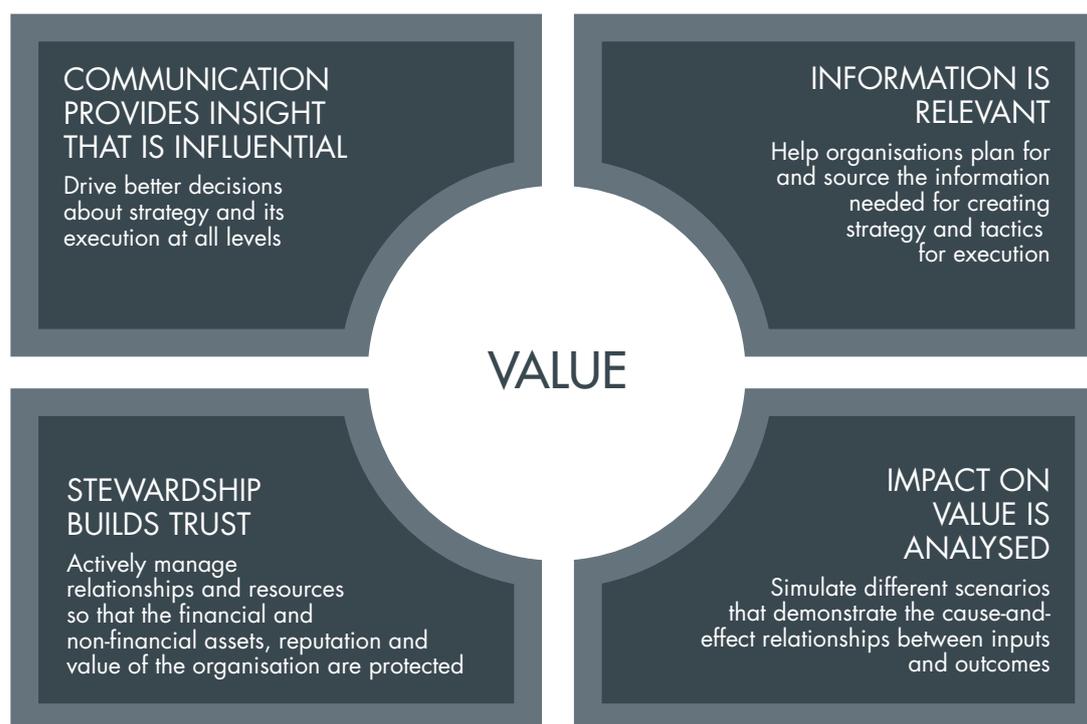
They describe the fundamental values, qualities, norms and features to which management accounting professionals should aspire. As shown in Figure 3, four overarching Principles (to be considered continuously rather than sequentially) are key to achieving this:

- **Communication provides insight that is influential**
  - strategy development and execution is a conversation
  - communication is tailored
  - communication facilitates better decisions
- **Information is relevant**
  - information is the best available
  - information is reliable and accessible
  - information is contextual
- **Impact on value is analysed**
  - simulations provide insight into options
  - actions are prioritised by their impact on outcomes
- **Stewardship builds trust**
  - accountability and credibility
  - sustainability
  - integrity and ethics

An effective management accounting function is made up of skilled and competent people, who apply the Principles to maintain and improve an organisation's performance management system through the areas of practice they undertake.

Three of the Principles apply to the discipline of management accounting; 'Stewardship builds trust' applies to the individual behaviours of management accounting professionals.

FIGURE 3: The Global Management Accounting Principles – detailed



## COMMUNICATION PROVIDES INSIGHT THAT IS INFLUENTIAL

**Objective** – To drive better decisions about strategy and its execution at all levels.

Management accounting begins and ends with conversations. It improves decision-making by communicating insightful information at all stages of decision-making. Good communication of critical information allows management accounting to cut across silos and facilitates integrated thinking. The consequences of actions in one area of the business on another area can be better understood, accepted or repaired.

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

This Principle involves communicating in a manner tailored to the decision being considered, to those making the decision (or other audiences) and to the decision styles or processes being used. It requires breaking down complexity and providing transparency about how conclusions have been

reached. When the right people have the right information at the right time, they are better placed to take decisions that will drive long-run value generation. This is how management accounting influences information-based decision-making.

### Strategy development and execution is a conversation

Discussions about strategy execution take place at all levels of the organisation and should involve all employees, eliminating siloed activity and thinking. This allows a clear line of sight between top-line objectives and individual targets. Management accounting brings rigour to these conversations, rooting them in evidence and informed judgement about the future.

### Communication is tailored

The level of detail and method of communication is tailored to users of the information, to the decision under discussion and to different decision styles. The level of the audience's financial knowledge is known and information is presented in a way that is easy for them to understand. Impact is achieved through robust, credible, timely and appropriate evidence-based information.

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Impactful and influential communication offers an integrated, comprehensive and balanced view of the organisation's past performance, its current position, future prospects and planned innovations. Reports should always be based on the concepts of transparency, prudence, stewardship and reliability, eliminating:

- immaterial information
- clutter
- jargon
- opaqueness
- poor navigation.

### Communication facilitates better decisions

Since the purpose of management accounting is to improve organisational decision-making, recommendations based on the other three Principles are presented clearly, succinctly and in an appropriate format, and provide rationale. This can help build consensus about the best course of action, with the final decision being underpinned by robust justifications.

Management accounting also requires a good understanding of the decisions the organisation needs to make. This informs the data collection and analysis, in line with the 'Information is Relevant' Principle. No amount of information and analysis is useful unless it has influence through being delivered with impact and by helping generate and protect the long-term value of the organisation.

## INFORMATION IS RELEVANT

**Objective** – To help organisations plan for and source the information needed for creating strategy and tactics for execution.

A central role for management accounting is to make relevant information available to decision-makers on a timely basis. Following the Communication principle, the decision at hand and needs of the decision-maker are known and understood. This Principle therefore involves the identification, collection, validation, preparation and storage of information.

It requires achieving an appropriate balance between:

- past, present and future-related information
- internal and external information
- financial and non-financial information (including environmental and social issues).

### Information is the best available

The consequences of decisions are realised in the future. To be relevant to a decision, therefore, information will have an element of prediction and will consider issues that have a significant effect on outcomes.

Irrelevant information will often include things like sunk or committed costs, but not all historical information is inapplicable. Continuous improvement relies on information about what did or did not work well in previous situations, so that good decisions can be repeated and bad ones avoided.

Management accounting scans the best available resources for information that is relevant to the decision that needs to be taken, the persons making the decision and the decision style or process being used. By understanding the needs of stakeholders – as set out in the Communication principle – the most relevant information for decision taking is identified, collected and prepared for analysis.

### Information is reliable and accessible

Decision-relevant information has integrity. To prepare data for analysis, it is cleaned, sorted and filtered. Its value is based on its quality, accuracy, consistency and timeliness. It is timely in relation to decisions that have been or will be taken in a given period.

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

### Information is contextual

Management accounting uses information with three key characteristics:

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

---

Quantitative and qualitative skills are needed in management accounting, to inform decision-making on the basis of past and present data and predictive insights. For example, management accounting can provide hindsight to determine performance-related reward. It can provide insight from real-time information about the present, to monitor the execution of strategies and plans and to bring them in line with targets. By using scenario planning, forecasting and other predictive tools, management accounting also provides foresight to guide the crafting of strategy.

The type of information used can be both financial and non-financial and can relate to internal and external issues, including environmental and social ones.

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

## IMPACT ON VALUE IS ANALYSED – THROUGH SCENARIO ANALYSIS AND MODELS

**Objective** – To simulate different scenarios that demonstrate the cause-and-effect relationships between inputs and outcomes.

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

Management accounting uses relevant information, as defined by the ‘Information is relevant’ Principle, to develop scenario models. The effort in assessing scenarios must be proportionate to the importance of the decision being made. Some scenario models will be simple and take very little time while others will need to be sophisticated and consider more complex factors.

This Principle requires a thorough understanding of the business model and the wider macro-economic environment. It involves analysing information along the value generation path, evaluating opportunities, and a focus on the risks, costs and value-generation potential of opportunities.

## Simulations provide insight into options

Scenario analysis brings rigour to the evaluation of organisational decisions. By running scenario models to evaluate the impact of particular opportunities and risks, organisations make better decisions about exploiting or mitigating them.

The models enable organisations to quantify the likelihood of an opportunity succeeding or a risk occurring and the value that is to be generated or eroded.

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

## Actions are prioritised by their impact on outcomes

Management accounting turns information into insight by analysing the impact on outcomes of the scenarios being considered. These options have different impacts on the organisation’s costs, risks and value. The scenarios illustrate the trade-offs between one option and another, so that opportunity costs are factored in to decisions.

Management accounting prioritises actions using robust logic from scenario models, which is used to justify the action being taken. A thorough understanding of the organisation’s strategic aims, stakeholder needs and agreed targets means actions are prioritised by value rather than cost.

## STEWARDSHIP BUILDS TRUST

**Objective:** To actively manage relationships and resources so that the financial and non-financial assets, reputation and value of the organisation are protected.

As previously stated, an effective management accounting function is one where competent people apply Principles to their practice areas. People who consistently adhere to good values and best practice become trusted guardians of an organisation’s value.

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The responsible planning and management of resources secures their availability for future generations. Relationships give organisations access to resources. Trust is the bedrock of good relationships, whether between colleagues or between organisations and customers, investors, suppliers and wider society (in **Section 3**). Management accounting professionals are trusted to be ethical, accountable and mindful of the organisation's values, governance requirements and social responsibilities.

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

### Accountability and credibility

Management accounting professionals are answerable to their direct customers and other stakeholders about the decisions they are involved in taking.

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

Being mindful of conflicting interests improves stakeholder management, and is an important consideration when prioritising stakeholder groups.

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

### Sustainability

Sustainable organisations achieve long-term economic performance while generating positive value for society and minimising their environmental impact.

Management accounting aligns sustainability activities with strategy by linking them to business drivers and the business model. It provides decision-makers with information about sustainability factors

so that these are integrated into business planning and reporting. Economic, environmental and social risks are identified in a systematic way.

Long-run resilience requires an organisation to adapt to the impending depletion of scarce resources. It must reduce its reliance on fossil fuels, build relevant skills, recognise and aim to minimise any negative impact that its activities have on society and the environment. An organisation's economic activity relies, and impacts, on external factors and mega trends (such as natural capital scarcity, climate change and population growth). It is increasingly important for instance, for organisations to understand the true cost of choices and factor those into decisions. For example, the price an organisation pays for a commodity is only part of the 'true cost' of that product; that commodity may contribute to deforestation, which in turn may cause increased carbon emissions, and so contribute to climate change.

### Integrity and ethics

In the execution of strategy, management accounting professionals align their actions with the organisation's values. The organisation's core values can provide a filter for decisions; to that end they can help overcome decision paralysis.

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

The letter and the spirit of laws, codes and regulations are followed. Behaviour that falls short is immediately challenged and appropriately escalated to the relevant authority; whistle blowing is undertaken if required. Deep-rooted or long-held assumptions are challenged as a result of the critical thinking and data interrogation that management accounting involves.

Chartered Global Management Accountants are governed by the professional code of conduct of their respective issuing body, either the AICPA<sup>7</sup> or CIMA.<sup>8</sup> Both CIMA's and the AICPA's professional codes are similar and are built on: Integrity and objectivity; Professional competence and due care; Confidentiality; Professional behaviour and conduct.

The Global Management Accounting Principles will be relevant to all management accountants, not just those who hold the CGMA designation.

### 3. HOW THE GLOBAL MANAGEMENT ACCOUNTING PRINCIPLES ARE APPLIED

Successful organisations have effective management accounting functions. The Global Management Accounting Principles ‘connect the dots’, providing a direct line of sight between an organisation’s objectives and the practices of management accounting. They are applied to what management accountants (are expected to) do at work and so can affect: management accounting professionals (people); the management of an organisation’s performance (Section 4); and management accounting practices (Section 5).

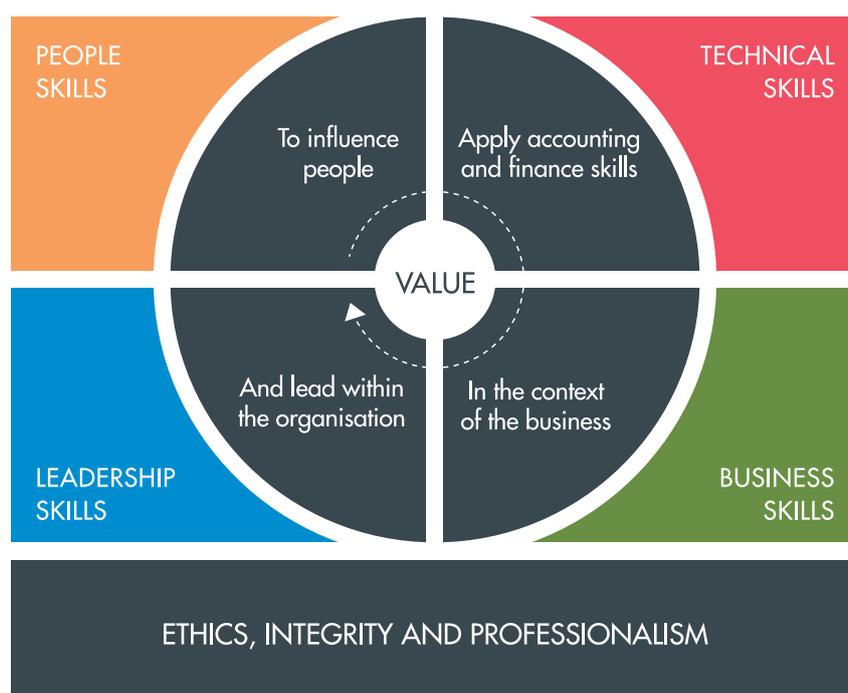
#### People

By working across functions, management accountants understand the links between operational activity, financial resource generation and consumption, and value generation and preservation. They perform a vital role in supporting organisational performance through creating plans and monitoring execution.

The CGMA competency framework for management accountants<sup>9</sup> – see Figure 4 – details the capabilities of trusted finance professionals. They are expected

to: (a) apply accounting and finance skills; (b) ensure these skills are applied in the context of the business; (c) to influence the decisions, actions and behaviours of others; and (d) lead the organisation at different levels. The framework highlights the range of skills of management accounting professionals, placing importance on both technical and soft skills. It also supports the concept of lifelong professional learning and experience.

FIGURE 4: The CGMA Competency Framework



The framework comprises four areas: technical, business, people and leadership skills. Each area includes a series of competencies that are defined at four proficiency levels: foundational, intermediate, advanced and expert. Each competency prescribes a series of skill sets to assist professional development.

Management accountants should pursue lifelong learning, and continuous professional development. They must be objective, ethical and consider the public interest. They should help colleagues to overcome bias by rooting organisational decision-making and implementation in an evidence base, and by providing empirically tested, objective solutions wherever possible.

Management accounting professionals must pay due regard to the primacy of the organisation’s customers and the range of relationships that enable a business to operate. They must also understand the global macro-economic environment to assess information based on its relevance to their organisation.

A combination of accounting and financial expertise, business understanding and analytical skills and appropriate business experience means that management accountants are practical and grounded in operational reality.

Figure 5 demonstrates how the role of management accountants is changing and how they can increase their influence by achieving more impact.

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

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

There is a clear link to the Global Management Accounting Principles; technical information on the left hand side is analysed for impact on organisational aims and is communicated with influence on the right hand side.

FIGURE 5: The changing role of management accountants



## Performance

The Principles are applied by *people* to the management of organisational *performance* and to the *practices* of the management accounting function. Performance management is discussed in Section 4. The components of performance management include strategising, planning, executing and reviewing.

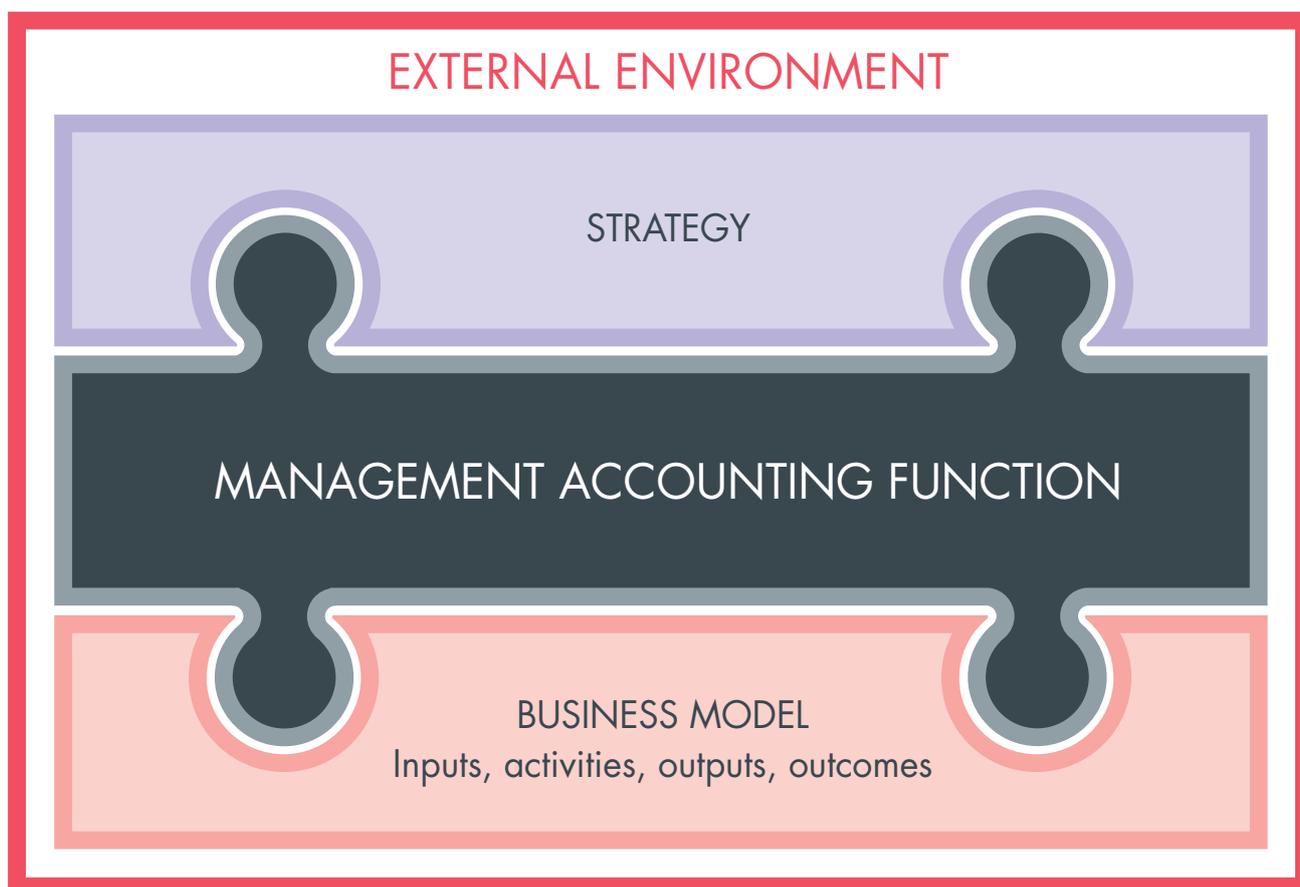
An organisation's strategy sets out corporate objectives which are implemented through the business model. The business model explains how value is generated, delivered and preserved. An organisation's business model is its chosen system of inputs, business activities, outputs and outcomes.<sup>10</sup> Management accounting links strategy to the business model through the performance management system as shown in Figure 6.

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

Value is generated by developing relationships that give access to resources and by converting those resources into outputs that are valuable to an organisation's customers. This incurs costs and the link between incurring costs and generating value is mediated by risks. See Box 1 on page 16.

An organisation will have relationships that it leverages to give it access to resources. Other relationships will give it access to markets. Success depends on the appropriate prioritisation of relationships, resources and the management of associated risks. Adherence to the Principles facilitates this prioritisation.

FIGURE 6: Management accounting linking strategy to the business model



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## BOX 1: Relationships, Resources and Risk



**RELATIONSHIPS** include the interactions the organisation has with suppliers, customers, investors, employees and the community. These relationships provide access to resources and to markets and should be seen as value-creating partnerships. The organisation incurs costs in maintaining relationships but also derives significant value from them.



**RESOURCES** are the inputs that organisations use to create value. These include people, raw materials, technology, financial and other resources. Security of supply, quality and cost are essential.



**RISK** refers to the possibility that objectives cannot be achieved and that the business is unable to operate as planned. Risk can apply to all the activities in which the organisation is involved. Risks may arise from the interaction of relationships and resources, as well as from changes in the external business environment.

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## Practices

The main practice areas of the management accounting function are discussed in Section 5 but are also listed here:

- **Cost transformation and management** – The exercise of cutting waste while preserving or enhancing value generation. It involves the sustained identification and reduction of waste across the organisation while freeing up resource to invest in customer focused innovation that will drive future value for stakeholders.
  - **External reporting** – The provision of an integrated and comprehensive view of the organisation's financial and non-financial performance, business model, risks and strategy which together forms the basis for an effective assessment of expected future performance.
  - **Financial strategy** – The identification of the possible strategies capable of maximising an entity's net present value, the allocation of scarce capital resources among the competing opportunities and the implementation and monitoring of the chosen strategy to achieve stated objectives.
  - **Internal control** – A documented framework of policies, systems, processes and procedures for managing risks to value generation and preservation, the efficient and effective implementation and operation of the framework and the reporting on and supervision of the framework.
  - **Investment appraisal** – The assessment of whether or not to pursue a particular investment based on alignment with strategy, prioritisation of options, affordability and acceptable returns versus unacceptable risks.
  - **Management and budgetary control** – The system of proactively controlling performance against predetermined targets at all levels of the organisation, which may include projects, people, activities, processes, sales volumes and revenues, resource quantities, operating costs and expenses, assets, liabilities and cash flows, as well as other non-financial measures.
  - **Price, discount and product decisions** – Deciding what to produce or what service to provide and determining the selling price and discount structures for products and services.
  - **Project management** – Integration of all aspects of a project, so that the proper knowledge and resources are available when and where needed and above all, to ensure that the expected outcome is produced in a timely, cost-effective and quality controlled manner.
  - **Regulatory adherence and compliance** – The fulfilment of statutory and regulatory obligations in relation to accounting, statutory reporting, tax and other regulatory compliance. The objective is to prevent penalties and other enforcement activity and promote the reputation of the organisation for good corporate citizenship.
  - **Resource management** – The consideration of the priority of resource availability in the context of organisational decision-making. It helps organisations to efficiently and effectively manage transformational or continuous improvements to products and processes. It involves the alignment of resources, systems and employees to strategic objectives and the organisation's priorities.
  - **Risk management** – The process of identifying, assessing and responding to uncertainty arising from the organisation's activities to support the delivery of its strategic objectives.
  - **Strategic tax management** – The role of tax in financial analysis and decision-making while proactively managing the organisation's tax position so that legal requirements are met.
  - **Treasury and cash management** – 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.
- Internal audit is also included. It is not a practice area that sits within the management accounting function, but management accounting makes a significant contribution to the system of internal controls as tested and appraised by the internal audit function.
- **Internal audit** – The provision of independent assurance that an organisation's risk management, governance and internal control processes are operating effectively.<sup>11</sup> It is sometimes referred to as the management review of controls.

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## 4. APPLICATION TO PERFORMANCE MANAGEMENT

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

To do this, managers participate in and oversee performance management. Table 1 on page 21 shows how performance management is used to develop, deploy and refine the execution of strategy. It includes feedback loops that embed continuous improvement in all aspects of an organisation's performance. Feedback loops enable causal learning. Knowing the reasons why past action did or did not work well allows organisations to repeat one and avoid the other.

The steps to performance management are:

**Strategy** articulates an organisation's purpose, its long-term objectives and how it expects to achieve them. The strategy considers the external environment, including the competitive, economic, regulatory and legal landscapes. This means the organisation's strategic position, strategic options, strategic risks and strategic implementation can be fully appraised. Performance can only be managed effectively if it is based on trustworthy and relevant information. Organisations therefore must agree the measures most appropriate for evaluating performance and develop a data plan for the purpose of making sure that the information for these measures is available during execution.

**Plans** are statements of intent. To execute them, organisations must provide:

- the required resources
- the enabling processes through which resources can be converted into valuable outputs
- the means of monitoring activity to check that targets are achieved.

A vital element of plans is data planning. This is the sourcing, assembling, refining and presenting of all the data that will be needed to evaluate and prioritise options, set targets, predict outcomes and measure the execution of plans. It is critical to the achievement of the Principle, 'Information is relevant.'

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

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

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

Planning for data is important because decision-makers should not lack the relevant data to assess performance. Nor should they be swamped with data that is not trustworthy, too late in arriving, or of questionable relevance to the decision that needs to be made.

The data plan should also include detail about the information technology needed to support the cost-effective sourcing, assembling, refining and presentation of data.

See Box 2 for more details on the features of data planning.

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## BOX 2: Data plans

Data should be structured to incorporate all elements of the business model – input, activities, outputs and outcomes. It should have the following features:

- **Explicitly linked to organisational objectives** – focused on users and accepted by them. As decision-makers, users should be able to explain clearly why specific data is required to measure strategy execution. Information must then be stored securely and presented in a meaningful way.
- **Rigorously prepared** – data must be sourced, cleansed and assembled; with data presentations agreed by users early enough to allow performance to be evaluated as planned initiatives are implemented.
- **Supports decision-making** – comprises the measures defined and accepted by users at the time of planning to enable them to evaluate execution and make decisions.
- **Readily accessible and intelligible to users** – users should be able to access the data easily to evaluate performance and future options.
- **Secure** – sensitive information must not be leaked.
- **Comprehensive** – the lowest level of granularity must be easily accessible (by the user) from the highest levels of aggregation to support the different levels of activity and review needed.
- **Consistently defined and labelled** – ‘One version of the truth.’ Data labels should be in plain language, without jargon or obscure database field descriptors. Measures must be defined and described consistently across the organisation. A measure dictionary is a useful means for consistent interpretation across the company.
- **Resilient to change and adaptable** – the business model will inevitably be refined over time to match change in the external environment.
- **Efficient** – there may be occasions when the cost of sourcing, assembling, refining and presenting data for a measure outweighs the benefits. In this case, decision-makers should:
  - explicitly agree not to measure execution using data; or
  - break down the measure into lower-level measures that provide partial information; or
  - agree a proxy measure (one that is closely enough related to the ideal measure to derive a performance assessment).

**Execution** involves the timely provision of resources and the best structuring of incentives to drive the actions needed to meet the organisation’s objectives. It takes place via an organisation’s business model (See Figure 6 page 15). The International Integrated Reporting Council (IIRC) defines the business model as, ‘the organisations’ chosen system of inputs, business activities, outputs and outcomes that aim to create value over the short, medium and long-term’.<sup>10</sup>

The business model is interconnected with both the external environment and the organisation’s governance system. Consequently, political, economic, social and technological factors require careful strategic consideration. During execution, competitive forces are often at play, providing a context laden with risks and opportunities, within which stakeholders’ ever-higher expectations must be met or exceeded. At this stage, real-time results are recorded and checked against targets and reports are produced for relevant decision-makers.

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

This will sometimes require relatively minor alterations to the portfolio of initiatives and processes; the organisation can continue with the (refined) execution of these. This is demonstrated by the small arrows in Table 1 on page 21.

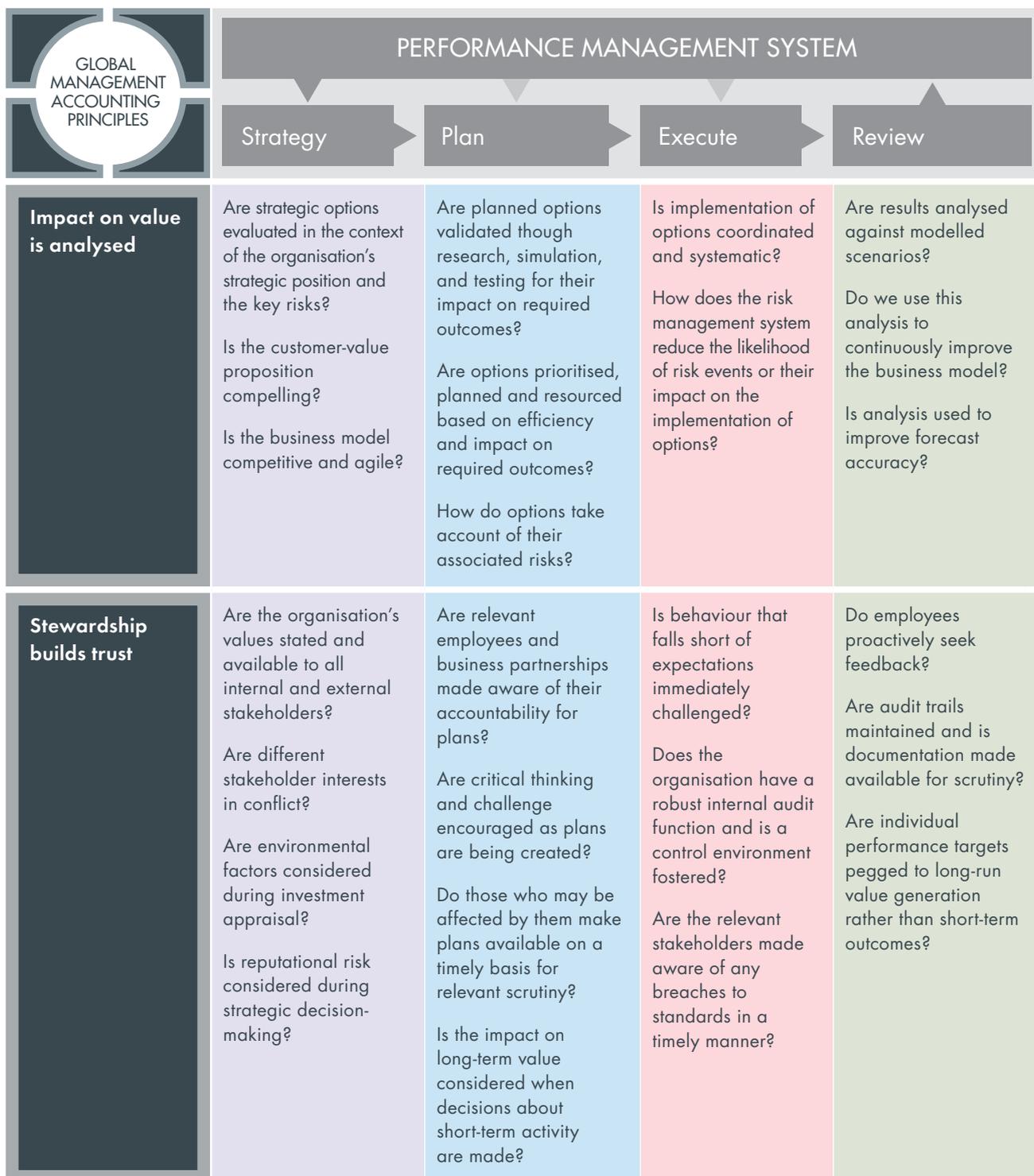
However, reviews will sometimes highlight the need for more fundamental change, including stopping some activity, rebalancing how activities are prioritised, or they may provide insight about the deployment of new initiatives. This could mean the need to review plans or even have a fundamental rethink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

Whether explicitly referred to as *strategising*, *planning*, *executing and reviewing* or not, most organisations employ some form of a ‘plan, do, check, act’ process to manage the execution of their strategy. Management accounting as a discipline is uniquely well placed to oversee this performance management cycle in organisations. Relevant information, scenario analysis, effective communication and strong stewardship are vital to decisions that continuously refine the execution of strategy.

The type of information, level of analysis, style of communication and the stewardship focus needed will vary. At every stage, however, the management accountant adds value to the performance improvement process. The Global Management Accounting Principles support the management of performance. Table 1 provides an indicative application.

TABLE 1: Application of the Global Management Accounting Principles to the performance management system

PERFORMANCE MANAGEMENT SYSTEM				
GLOBAL MANAGEMENT ACCOUNTING PRINCIPLES				
	Strategy	Plan	Execute	Review
<b>Communication provides insight that is influential</b>	<p>Are internal and external stakeholders identified?</p> <p>Are the connections between their interests and influences and the organisation's purpose clear?</p> <p>Is it clear how the strategic objectives represent the organisation's purpose?</p> <p>How do stakeholder groups engage in the strategy conversation?</p> <p>How are risks to the achievement of strategic objectives communicated with key stakeholders?</p>	<p>How is the connectivity of initiatives and processes with strategic objectives communicated?</p> <p>How are people's jobs aligned to initiatives and processes?</p> <p>Is there line of sight between what people and teams do and strategic objectives?</p>	<p>Are results communicated according to stakeholder needs?</p> <p>Are results communicated in terms of their impact on strategic objectives?</p> <p>Are results accessible?</p>	<p>Does management information include an assessment of forecast performance?</p> <p>Does management information include a review of the effectiveness and efficiency of initiatives and processes?</p> <p>Does management information include the evaluation of alternative options?</p> <p>Does management information include post-implementation reviews?</p>
<b>Information is relevant</b>	<p>Is the external environment considered, e.g. the competitive scene, economic landscape, regulatory and legal frameworks?</p> <p>Is the strategic position of the organisation identified and quantified, e.g. market share, availability of resources, and assessment of competencies?</p> <p>Are key measures of success agreed?</p> <p>How does the data plan support performance management?</p> <p>Are key risks and their mitigations identified?</p>	<p>Does the business plan also have a data plan so that initiatives and processes are reliably assessable upon execution?</p> <p>Is the management information system defined and approved by the business's users?</p>	<p>Is the management information system built and ready for decision-support?</p> <p>Does the organisation have ready access to real-time information about financial and non-financial results?</p> <p>Are early warning indicators for quick corrective actions in place?</p>	<p>How does management information inform decisions on:</p> <ul style="list-style-type: none"> <li>• Execution refinement?</li> <li>• Future plans?</li> <li>• Future strategy?</li> </ul>



## 5. APPLICATION TO PRACTICES

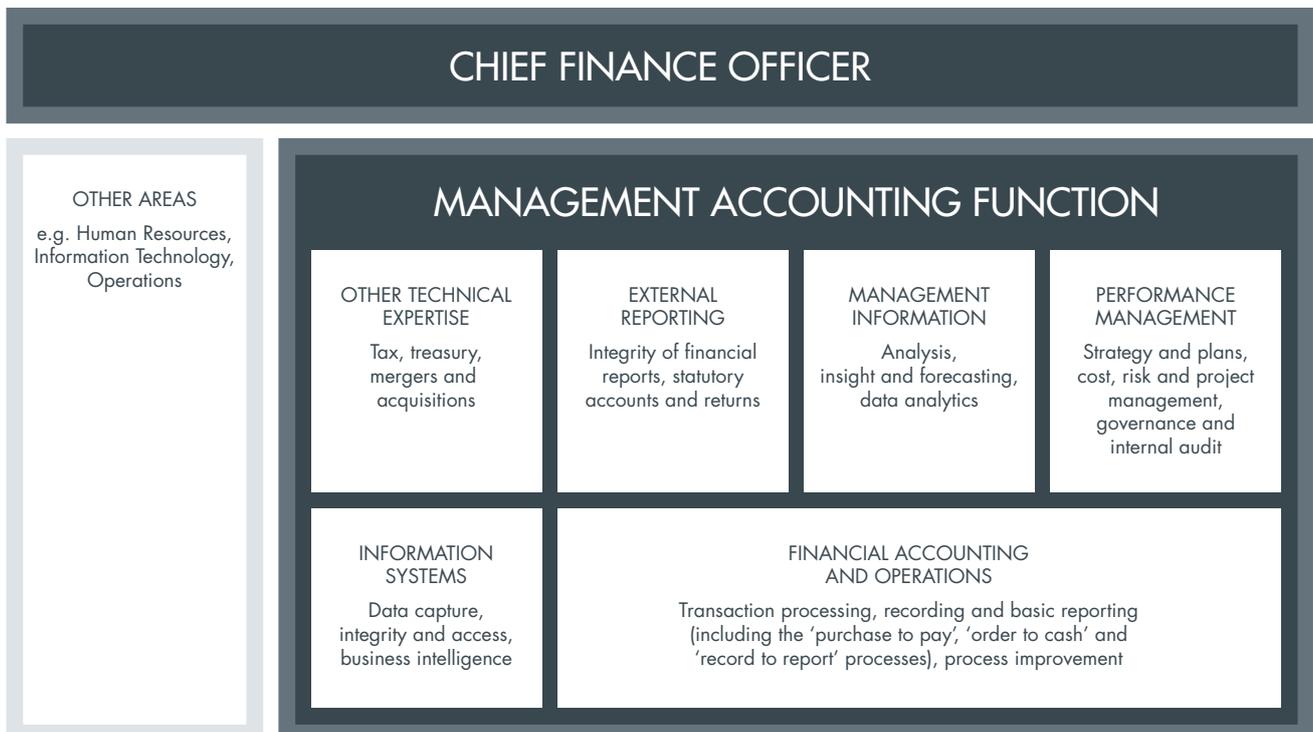
Frameworks that underpin the Generally Accepted Accounting Principles and International Financial Reporting Standards, provide clarity about how to report the organisation’s financial position and past performance. Until now, there has been no equivalent framework to guide management accountants in supporting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

Extracting value from information is a key source of advantage. The Principles provide CFOs and boards with this capability.

The role of CFOs is changing. In many organisations that remit is expanding to include IT, human resources, and even operations. All CFOs however, have responsibility for the management accounting function. To ensure breadth of relevance to

organisations globally, this document therefore limits the application of the Principles to the key activities that the management accounting function, under the leadership of the CFO, must do well to assure stakeholders of sustainable financial performance. The key activities of the management accounting function are illustrated in Figure 7.

FIGURE 7: The key activities of a management accounting function



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This is not to say that the management accounting profession only supports the management accounting function. As explained in previous sections, management accounting makes a contribution across the organisation and its Principles apply universally.

In Section 4, the Principles are applied to the development, planning, execution and refinement of strategy. In this section, they are applied to the key activities of effective management accounting functions, which are mostly undertaken in the areas in the four blue boxes of Figure 7 on page 23.

The finance-specific duties of CFOs include responsibility for raising funds, using funds and reporting on how funds are raised and used in the pursuit of achieving the organisation's objectives. The core practices of the management accounting function therefore encompass, though are not limited, to the areas listed in Table 2. Management accounting adds value to each area of practice, as shown in the right-hand column. As previously mentioned internal audit is also included. It is not

a practice area that sits within the management accounting function, but it involves the testing of controls that are often designed and implemented by management accountants. Internal reporting is not separated out as a discrete area of practice because it is implicit in the application of the Principles to all practices.

It is important to note that an effective management accounting function not only performs each practice well in isolation. It is also one that shares knowledge and information between areas and whose teams work collaboratively. Box 3 details where more information about management accounting tools and techniques can be found.

The rest of this section demonstrates how the Principles can guide the practices of the management accounting function. What follows can be used to assess the effectiveness of the organisation's current management accounting function, but it is not intended to be prescriptive or exhaustive.

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### BOX 3: Management Accounting Tools



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

The **CGMA Essential Tools for Management Accountants**<sup>12</sup> contains information on 20 leading tools including the CIMA Strategic Scorecard®, The Balanced Scorecard, Activity Based Budgeting & Costing, Value Chain Analysis and Enterprise Risk Management (ERM).

TABLE 2: Core practice areas of the management accounting function

PRACTICE AREA	DEFINITION	VALUE TO THE ORGANISATION	CONTRIBUTION OF THE MANAGEMENT ACCOUNTANT TO PRACTICE AREA
COST TRANSFORMATION AND MANAGEMENT	The exercise of cutting waste while preserving or enhancing value generation. It involves the sustained identification and reduction of waste across the organisation while freeing up resource to invest in innovation that will drive future value for stakeholders.	Improved customer satisfaction through the provision of product and service value for money.  Increased organisational competitiveness and increased stakeholder value, achieved through the establishment of a lean culture and investment in innovative products and services.	Understands the drivers of cost across the organisation.
			Aids the improvement of value-chain efficiency.
			Develops cost targets in conjunction with relevant parts of the business.
EXTERNAL REPORTING	The provision of an integrated and comprehensive view of the organisation's financial and non-financial performance, business model, risks and strategy which together forms the basis for an effective assessment of expected future performance.	Helps the organisation to engage with a wide stakeholder base and explain the organisation's strategy, business model and performance.	Encourages the organisation to consider reporting as a value-creating activity that is driven by integrated thinking.
			Reports information that is regularly presented to the board of directors in the context of strategic targets.
			Ensures that reports comply with regulation and governance.
FINANCIAL STRATEGY	The identification of the possible strategies capable of maximising an entity's net present value, the allocation of scarce capital resources among the competing opportunities and the implementation and monitoring of the chosen strategy to achieve stated objectives.	Value of the organisation is optimised for owners and other stakeholders.  Organisation's capital requirements are balanced with expectations of owners and other stakeholders.  Investment opportunities are thoroughly appraised, robustly implemented and appropriately governed.	Sources funds efficiently.
			Appraises investments.
			Designs and implements dividend policy.
			Controls working capital.
			Optimises capital structure.
INTERNAL CONTROL	A documented framework of policies, systems, processes and procedures for managing risks to value generation and preservation, the efficient and effective implementation and operation of the framework and the reporting on and supervision of the framework.	Provides reasonable assurance that tangible and intangible assets are safeguarded and financial and non-financial resources are correctly accounted for.  Reduces the risk of error and fraud and the likelihood of financial loss, thereby enhancing trust in an organisation's financial stewardship. This leads to reliable reporting, which in turn enables sound decision-making and better financial management.	Manages, supervises and reports on the framework of systems, processes and procedures that provide confidence in the safeguarding of resources.

PRACTICE AREA	DEFINITION	VALUE TO THE ORGANISATION	CONTRIBUTION OF THE MANAGEMENT ACCOUNTANT TO PRACTICE AREA
INVESTMENT APPRAISAL	The assessment of whether or not to pursue a particular investment based on alignment with strategy, prioritisation of options, affordability and acceptable returns versus unacceptable risks.	Prioritises opportunities for funding that generate value for stakeholders and avoids those which are likely to erode value.	Performs relevant calculations and analysis to determine the quantifiable value to the organisation of pursuing a particular investment.
			Understands all the risks that need to be factored into the appraisal.
			Provides real options to decision-makers about which opportunities should be exploited or avoided.
MANAGEMENT AND BUDGETARY CONTROL	The system of proactively controlling performance against predetermined targets at all levels of the organisation, which may include projects, people, activities, processes, sales volumes and revenues, resource quantities, operating costs and expenses, assets, liabilities and cash flows, as well as other non-financial measures.	<p>Helps organisations evaluate performance against targets and take improvement actions.</p> <p>Provides a means for accountability and control to be decentralised, so that performance can be proactively managed by those managers closest to the execution of planned activity.</p>	Monitors and reports financial and operational performance against planned targets.
PRICE, DISCOUNT AND PRODUCT DECISIONS	Deciding what to produce or what service to provide and determining the selling price and discount structures for products and services.	Enhances profitability of products and services and helps organisations position their products and services within their target market.	Analyses target market to set target price and margin, and therefore target cost. This optimises product, customer and channel profitability/value for money.
			Understands which cash flows are relevant for inclusion in calculations to determine prices.
			Knows the business model and where a particular product or service fits within it, aiding market positioning.
			Translates complex numbers into understandable recommendations to facilitate decisions about the allocation of funds to specific products and services.
PROJECT MANAGEMENT	Integration of all aspects of a project, so that the proper knowledge and resources are available when and where needed and above all, to ensure that the expected outcome is produced in a timely, cost-effective and quality controlled manner.	Provides controls over projects to increase the chance of benefits from projects being realised and risks minimised.	Provides financial scrutiny to project plans, budgets and spending.
			Ensures projects are adequately resourced and that their purpose fits with the organisation's strategic priorities.
			Communicates project processes to get effective buy-in from relevant stakeholders.
REGULATORY ADHERENCE AND COMPLIANCE	The fulfilment of statutory and regulatory obligations in relation to accounting, statutory reporting, tax and other regulatory compliance. The objective is to prevent penalties and other enforcement activity and promote the reputation of the organisation for good corporate citizenship.	Helps to preserve value and mitigate losses through avoiding the direct and indirect costs of enforcement activity.	Monitors the regulatory landscape to understand current and future developments and their potential impact on the organisation.
			Calculates and assesses the costs of compliance and non-compliance.
			Ensures the organisation approaches compliance within both the letter and spirit of the law.

PRACTICE AREA	DEFINITION	VALUE TO THE ORGANISATION	CONTRIBUTION OF THE MANAGEMENT ACCOUNTANT TO PRACTICE AREA
RESOURCE MANAGEMENT	The consideration of the priority of resource availability in the context of organisational decision-making. It helps organisations to efficiently and effectively manage transformational or continuous improvements to products and processes. It involves the alignment of resources, systems and employees to strategic objectives and the organisation's priorities.	Helps organisations to manage transformational or continuous improvements to products and processes, efficiently and effectively.	Gives due consideration to the priority of scarce resource availability.
			Produces resource maps that highlight requirements, returns and options.
			Understands the opportunity costs and comparative advantage impacts of differing resource allocations.
RISK MANAGEMENT	The process of identifying, assessing and responding to uncertainty arising from the organisation's activities to support the delivery of its strategic objectives.	Awareness and management of these risks can help the organisation address uncertainty by increasing the probability of success and reducing the probability of failure in executing its strategy and meeting stakeholder expectations.	Identifies the risks and advises on appropriate responses that are relevant and proportional to the size of risk, the organisation and its environment.
			Embeds risk management within their thinking and considers it alongside planning and performance.
			Supports non-finance colleagues to assess the probability and impact of all organisational risks and to determine appropriate responses.
STRATEGIC TAX MANAGEMENT	The role of tax in financial analysis and decision-making while proactively managing the organisation's tax position so that legal requirements are met.	The organisation is aware of and understands the implications of relevant tax legislation in the jurisdictions in which it operates.	Advises on transfer pricing policy.
			Provides impact analysis of tax issues on mergers and acquisitions.
			Calculates the tax implications on capital investment decisions.
			Acts as an ethical conscience of the organisation.
TREASURY AND CASH MANAGEMENT	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.	The organisation has sufficient cash to meet its obligations and fund prioritised opportunities.  Provides risk management of the organisation's exposures to currency fluctuations.	Provides information from the balance sheet and cash flow statements as required by treasury colleagues.
			Produces accurate cash flow forecasts.
			Manages financial risk.
INTERNAL AUDIT	The provision of independent assurance that an organisation's risk management, governance and internal control processes are operating effectively. <sup>11</sup> It is sometimes referred to as the management review of controls.	Provides assurance that key financial and non-financial risks, including reputational, environmental and social risks, are being adequately controlled by the organisation and its long term value is protected.  Internal auditors assist the external auditors with their procedures.  It is a systematic approach to evaluating and improving the effectiveness of risk management, control and governance processes.	Facilitates the efficient delivery of assurance by providing cost-benefit analysis for the internal audit and control functions.
			Encourages continuous appraisal and revalidation of accounting and internal control systems.



## Cost transformation and management

**Definition** – The exercise of cutting waste while preserving or enhancing value generation. It involves the sustained identification and reduction of waste across the organisation while freeing up resource to invest in customer focused innovation that will drive future value for stakeholders.

### Communication provides insight that is influential

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

### Information is relevant

- Cost drivers are known and recorded.
- Cost driver measure results for every component of the end-to-end business model are compared over time.
- Costs are compared with equivalent costs from relevant organisations.
- Asset utilisation is compared over time and with best-in-class benchmarks.
- Costs from previous years at aggregate, departmental/functional and product level are known and compared.

### Impact on value is analysed

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

### Stewardship builds trust

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



## External reporting

**Definition** – The provision of an integrated and comprehensive view of the organisation's financial and non-financial performance, business model, risks and strategy which together forms the basis for an effective assessment of expected future performance.

### Communication provides insight that is influential

- External reports are used as an opportunity to engage with the wider stakeholder base and explain the organisation's strategy, business model and performance.
- Information reported externally includes material regularly presented to the board of directors in the context of strategic targets. (For example, how a strategic target is being measured by the trend in a key performance indicator).
- Communications are designed and implemented primarily to address providers of financial capital. They also recognise the legitimate needs of other stakeholders such as employees, customers, suppliers, business partnerships, local communities, legislators, regulators and policy-makers.
- Externally reported information has been presented and approved throughout the organisation's designated hierarchy prior to public exposure.
- Information to be communicated is material and presented in a clear, concise, well-defined and transparent way, where possible avoiding repetition and jargon.
- Reports meet all required and expected deadlines and are designed to deliver factual, accurate, verified, mandated and relevant information to all identified stakeholders on a timely basis.
- All relevant communication channels, such as print, online, social media and mobile, are considered and used if appropriate.

### Information is relevant

- The organisation's external reporting meets the needs of investors and other stakeholders. It contains clearly communicated information on governance, the business model, strategy and performance and supports effective company stewardship.
- The organisation's external reports contain trends over a suitable time frame (past, present and future).

- The information is relevant and faithfully represents what it purports to represent. The information is comparable, verifiable, timely and understandable.
- The inter-connectivity of the data being reported is managed so that the objectives of external reporting are achieved.

### Impact on value is analysed

- External reporting is viewed by the organisation as more than a required and mandatory function. An organisational attitude is prevalent which views reports as a service that provides value-generating opportunities, driven by integrated thinking and meeting and exceeding stakeholders' expectations.
- External reporting is compliant with the appropriate accounting standards and regulations required for the organisation. This includes regulatory/statutory reporting, tax returns and other required submissions.
- In addition to the reporting of financial performance, the organisation considers and reports its impact on the wider economy, society and the environment.

### Stewardship builds trust

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



## Financial strategy

**Definition** – The identification of the possible strategies capable of maximising an entity's net present value, the allocation of scarce capital resources among the competing opportunities and the implementation and monitoring of the chosen strategy so as to achieve stated objectives.

### Communication provides insight that is influential

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

### Information is relevant

Organisations, whether commercial, governmental or not for profit, face three key decisions, the first two of which relate to all organisations, regardless of their size or sector:

1. **Investment** – what projects should be undertaken by the organisation?
2. **Finance** – how should the necessary funds be raised?
3. **Dividends** – how much cash should be allocated each year to be paid as a return to shareholders, and how much should be retained to meet the cash needs of the business?

- Commercial organisations compete for capital at the lowest possible cost in increasingly globalised and volatile capital markets. Managers run commercial entities to ensure their organisations are in a strong position to attract the debt and equity capital they need for the sustainable generation of shareholder wealth. In competitive markets (and often across multiple countries) managers have a good understanding of information relating to:
  - sector shareholder return characteristics
  - shareholder relations
  - sources of finance
  - creditworthiness
  - gearing/financial leverage
  - debt covenants.

Commercial, government and not-for-profit managers have a good understanding of information relating to:

- macroeconomic indicators, such as: inflation, productivity, GDP, interest rates, exchange rates
- government policy, e.g. on employment, regional investment encouragement, inflation, tax, exchange controls, competition, trade, market entry
- socio-political factors such as demographic changes that may impact on the cost or delivery of services (e.g. healthcare), and changes in political models in countries or regions that may impact on the security or stability of assets, existing or future market opportunities or resources deployed.

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## Impact on value is analysed

For commercial entities the impact of decisions on shareholder value are modelled and understood.

They are assessed with measures such as:

- earnings, or earnings per share (EPS)
- share price appreciation
- free cash flow
- market share
- customer satisfaction
- return on assets (ROA).

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

- customer satisfaction trends
- cost per satisfied customer trends
- cost per benefit trends.

Benchmarking, if used carefully, can be a useful way of gauging VFM. However benchmarks can be difficult to achieve in some public sector entities.

This is particularly true where the entity has a monopoly, or where the objectives of the entity are not comparable to those held by other entities.

## Stewardship builds trust

- Governance structures and processes meet the needs of stakeholders.
- Financial strategy is transparent to stakeholders.
- Strategy implementation and control processes and procedures are effective (see internal control on page 32).
- Post-completion audits are carried out and findings shared with individuals responsible for governance.
- Lessons are learned and recommendations acted upon.



## Internal control

**Definition** – A documented framework of policies, systems, processes and procedures for managing risks to value generation and preservation, the efficient and effective implementation and operation of the framework and the reporting on and supervision of the framework.

### Communication provides insight that is influential

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

### Information is relevant

The following information is understood and documented:

- Nature, extent and impact of risks that organisations face.
- Organisational capacity and appetite for those risks.
- Results of tests on relevance and effectiveness of control policies, processes and procedures.
- Plans, budgets and forecasts of organisational activities.
- Quantity and quality of resources to accomplish organisational objectives.
- Delegations and authorisation limits for employees at various levels.
- Audit trails of relevant financial and non-financial transactions. (Non-financial examples include inventory, plant and machinery, work in progress, goods in transit, furnishings and fixtures, buildings).

### Impact on value is analysed

- Planning, resource allocation and reporting activities are aligned to generate value for the organisation. This helps the organisation to decide where its priorities lie and where they are most likely to be at risk.
- Controls are regularly revised to align them to the business model of the organisation.
- The physical and financial processes that pose the most risk to the organisation are identified and evaluated (See risk management on page 41).
- Responsibility for financial controls is assigned to appropriate levels of employees. In general it is the responsibility of the board of directors to ensure that reasonable financial controls are in place. It is the responsibility of management to ensure that the controls are operating effectively; and it is the responsibility of all employees to operate the controls in their areas of work.
- The relevance and effectiveness of the controls are regularly tested (See internal audit on page 46).

### Stewardship builds trust

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



## Investment appraisal

**Definition** – The assessment of whether or not to pursue a particular investment based on alignment with strategy, prioritisation of options, affordability and acceptable returns versus unacceptable risks.

### Communication provides insight that is influential

- Real options, including a ‘do nothing’ option are considered and provided as alternatives to other investment decisions, and their commensurate risks are discussed.
  - The results of investment appraisal calculations are presented to decision-makers in a simple and transparent format before the investment decision. This takes place during the life cycle of the asset and post investment.
  - Recommendations about the prioritisation of investments that are mutually exclusive, and/or are subject to single-period capital rationing, are made and explained.
  - The approach and basis of the inclusion/rejection of information included in undertaking the appraisal are explained and understood.
- The alternative of using existing resource and assets is considered. For example, should a decision to invest in a new asset be made when elsewhere in the organisation the same or similar asset is under-utilised?
  - The technical, commercial, financial and operational feasibility of the proposal are calculated and analysed.
  - Alternatives to traditional processes are considered when evaluating innovation projects. These might include stage-gate processes, ring-fenced budgets and portfolio management strategies.
  - When the output of an appraisal of a potential investment is to be used for financial reporting purposes, reference is made to the use of discount factors and net present values in International Reporting Standards or local GAAP requirements.

### Information is relevant

- Investment appraisals are based on sound analysis and on information which:
    - is internal and external
    - is financial and non-financial (including environmental and social issues)
    - trends over a suitable time frame (past, present and future)
    - captures the drivers of value (or revenue) and cost.
  - Investment appraisals are based on cash flow information, which is relevant, accurate, reliable, consistent, complete and timely. Bias is considered and any necessary adjustments are made. For example if revenue projections are considered to be ambitious, they are reduced in the appraisal rather than adjusting the discount factor.
  - Appropriate appraisal measures are considered and selected, including net present value, internal rate of return, payback period and return on investment.
- Options are developed and evaluated with due reference to the organisation’s aims, competitive position and operating and regulatory environment.
  - The goals of investment projects are understood. Categorisation is used to aid evaluation. Categories may include replacement, expansion, rationalisation/productivity, new product development and mandatory requirements.
  - Alternatives to capital projects, such as renting, sale and leaseback, and outsourcing are considered.
  - Risk is calculated based on sensitivity analysis, which allows managers to understand by how much the cash flows can vary before the investment is no longer viable.
  - The time value of money, using appropriate discount factors, is accounted for when appraisals cover investments that span different years.
  - Discount rates are selected on the basis of the organisation’s average cost of capital, plus a systematic risk factor applied to future cash flows, depending on the nature of the investment.

### Impact on value is analysed

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## Stewardship builds trust

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



## Management and budgetary control

**Definition** – The system of proactively controlling performance against predetermined targets at all levels of the organisation, which may include projects, people, activities, processes, sales volumes and revenues, resource quantities, operating costs and expenses, assets, liabilities and cash flows, as well as other non-financial measures.

### Communication provides insight that is influential

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

### Information is relevant

- Key strategic priorities are known and understood so that they are efficiently resourced.
- Measures are relevant to stakeholder expectations.
- Budgets are produced in conjunction with business owners/functional managers.
- Performance trends for inputs, outputs and outcomes and relevant benchmarks are tracked to ensure targeted results are competitive and continuously improve.
- Past performance provides confidence in the achievability of forecast performance.

### Impact on value is analysed

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

### Stewardship builds trust

- Co-dependencies between the organisation's value chain and the needs and contributions of stakeholders are recognised – plans to optimise the value chain take account of these dependencies.
- Business managers are expected to provide supporting evidence to back up projections about expected results and to articulate the assumptions on which these projections are made.



## Price, discount and product decisions

**Definition** – Deciding what to produce or what service to provide and determining the selling price and discount structures for products and services.

### Communication provides insight that is influential

- Key pricing data is captured centrally and made available in the form of a pricing tool to relevant employees (particularly sales employees). This facilitates critical negotiations. The pricing tool contains information about product volumes, list prices, promotional spending, payment terms and product cost data.
- Product or service mix analysis allows evidence-based decisions to be made about the allocation of funds and other resources to specific products or services.
- Empirically tested decisions are made about the acceptance or rejection of contracts.
- Pricing and cost/benefit comparisons are regularly performed.
- Pricing processes are standardised and institutionalised across the organisation.
- Management accountants are involved in the early stages of new product/service development, so that the new products/services are evaluated for cost/benefit in the context of the organisation's existing product/service portfolio.

### Information is relevant

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

### Impact on value is analysed

- The organisation's product or service mix is analysed to show the value of sales, expressed in relation to market growth and market share held.
- Management accountants regularly analyse customer, channel and product profitability.
- The trade-off between the price a customer pays and the benefit they perceive to gain from a product is known and the customer value of the product understood.
- Multi-product break-even analysis, including profit/volume, contribution/sales ratio and margin of safety are performed where relevant and measurable.
- Alternative pricing strategies, and their financial consequences, are considered and tested through financial modelling – for example, the effects of market skimming, premium pricing, penetration pricing, loss leaders, product/service bundling and product differentiation to appeal to different market segments.
- The risks of product or service repositioning are known and the impacts modelled so that trade-offs between different customer segments are understood.
- New product/service introductions are viewed as an opportunity to review prices.
- Plans to introduce replacement products include strategies to mothball existing products and services.
- Changes to the customers' perceived value of a product or service are always accompanied by a pricing review.
- Changes to product or service features have the effect of both retaining existing customers and attracting new ones.
- Sensitivity analysis of cost-, volume-, and profit-based decisions is performed and results are modelled.
- Multiple limitations on product/service demand and other production constraints are understood for their impact on revenue and profit.
- Bottlenecks/areas of underperformance are identified and improvements made.

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## Stewardship builds trust

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



## Project management

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

### Communication provides insight that is influential

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

### Information is relevant

- The purpose of the project, its link to overarching strategic objectives, its expected deliverables, critical time plan/path and its formal budget are produced, agreed and distributed to relevant employees.
- Time, cost and quality targets, tolerances, measures and constraints are known and agreed.
- Roles and responsibilities within the project team are documented and distributed.
- Project budgets are produced in line with project objectives and organisational expectations.
- Project work streams are adequately resourced with funding and personnel time.
- Detailed work packages, including milestones, timelines, quality thresholds and funding arrangements are produced and documented.

### Impact on value is analysed

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

### Stewardship builds trust

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



## Regulatory adherence and compliance

**Definition** – The fulfilment of statutory and regulatory obligations in relation to accounting, statutory reporting, tax and other regulatory compliance. The objective is to prevent penalties and other enforcement activity and promote the reputation of the organisation for good corporate citizenship.

### Communication provides insight that is influential

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

### Information is relevant

- The regulatory and legislative landscape is monitored to understand current and emerging developments and their potential impact on the organisation.
- Compliance aspirations and minimum quality targets/thresholds are set and communicated.
- The organisation maintains and documents legislative and regulatory requirements for all markets it operates in. These include penalties for non-compliance and compliance deadlines.

- Gaps between the self-assessment results and minimum compliance thresholds/targets are highlighted. Mitigation activities are undertaken to close the gaps. These efforts further define milestones, timelines and responsibilities.

### Impact on value is analysed

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

### Stewardship builds trust

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



## Resource management

**Definition** – The consideration of the priority of resource availability in the context of organisational decision-making. It helps organisations to efficiently and effectively manage transformational or continuous improvements to products and processes. It involves the alignment of resources, systems and employees to strategic objectives and the organisation's priorities.

### Communication provides insight that is influential

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

### Information is relevant

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

### Impact on value is analysed

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

### Stewardship builds trust

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



## Risk management

**Definition** – The process of identifying, assessing and responding to uncertainty arising from the organisation’s activities to support the delivery of its strategic objectives.

### Communication provides insight that is influential

- The risk culture and framework are communicated to and understood by all employees and business partnerships.
- An appropriate risk-aware culture is fostered through regular training and communication of policies and processes.
- Effective risk conversations are facilitated at all levels with information that supports the risk management process from identification, assessment and response through to review and learning from experience.
- Resilience is built through the creation of a culture and environment where ‘risk information flows freely throughout the organisation up to directors to prevent the “risk blindness” that affects many boards’.<sup>13</sup>
- Risk information is used to support the organisation’s rapid response capability to prevent an incident escalating into a crisis.<sup>13</sup>
- Employees have a high awareness of reputational risk and its implications for the organisation’s activities and information flows.
- External risk reports enable stakeholders to assess the quality and effectiveness of the organisation’s risk management framework. This is through a fair, balanced and understandable<sup>14</sup> description of the organisation’s principal risks and its risk management and internal control systems.
- A schedule of risks that have been identified as material to the organisation. These should be categorised according to an appropriate risk classification scheme that makes it possible to identify new risks and any material gaps in coverage. Such risk categories will typically include strategic, tactical, operational and reputational risks. They should be considered within the context of the organisation’s business model, including key external relationships such as major supply chain partners as well as behavioural risks.
- An assessment and evaluation of these risks, using a combination of both quantitative and qualitative approaches. This will typically include estimates of probability and impact (See Internal audit page 46).
- Proposed risk responses (avoidance, transfer, mitigation and tolerance) for each material risk is identified.
- Exposure to risk both before and after the application of controls (gross and net risk).
- Details of risk events and outcomes (including near misses and stress tests) together with corrective action taken to address control weaknesses.
- Internal audit reports.
- Scenarios which indicate how risks interact and combine.
- Warning signs and red flags.
- Externally-sourced risk information on reputation such as sentiment ratings, feedback on external websites and social media discussions.

### Information is relevant

Relevant information is gathered and documented and includes:

- The risk management culture, risk appetite and tolerances, policies and framework, including costs, proposed benefits and key risk indicators (KRIs).
- The external risk environment and key drivers of potential risks/opportunities – for example, changes to the organisation’s political, economic, social, technological, environmental and legal conditions (PESTEL analysis).

### Impact on value is analysed

- Risks and opportunities are analysed in relation to the organisation’s framework for creating value (the business model) within the context of the external environment.
- Long term value is created by balancing risk and reward.
- The risk management framework is fully aligned with the strategic objectives of the organisation and the performance management system.
- Potential risks and opportunities are assessed and articulated in terms of value at risk/opportunity.

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- Planned risk responses are evaluated in terms of their impact on value created.
  - The potential impact of performance management incentives on the organisation's risk profile is understood and articulated.
  - Interrelationships between risks are identified, understood and mapped to understand the impact and probability of multiple, connected events.

## Stewardship builds trust

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



## Strategic tax management

**Definition** – The role of tax in financial analysis and decision-making while proactively managing the organisation's tax position so that legal requirements are met.

### Communication provides insight that is influential

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

### Information is relevant

- The organisation has agreed policies and procedures on enforcement and reporting.
- Legislative and regulatory requirements for all markets the organisation operates in are kept up to date.
- Tax compliance policies and procedures covering all aspects of taxation are developed, maintained and understood by all individuals responsible for tax administration.
- The principal types of taxation the organisation is exposed to in each of the jurisdictions in which it operates are known. The regulatory frameworks of the taxing authorities in those markets are understood and documented.
- Transfer pricing policies are developed, followed and well documented. Best practice guidelines are followed. For example, organisations operating internationally may follow relevant Organisation for Economic Cooperation and Development (OECD) guidelines on transfer pricing.

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

### Impact on value is analysed

- Tax is considered strategically and planned for well in advance of its due date.
- The regulatory and legislative landscape is monitored, trends are spotted and their potential impact on the organisation quantified to future-proof the organisation against potential policy changes.
- The tax implications of strategic decisions relating to mergers and acquisitions, disposals and capital gains are understood.
- Local tax legislations are interpreted in a way that is consistent with driving long-run stakeholder value.
- Tax incentives and exemptions that are available in the jurisdictions in which the organisation operates are known and utilised appropriately.
- Analysis of the group's deferred tax assets and liabilities is regularly performed.

### Stewardship builds trust

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



## Treasury and cash management

**Definition** – 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.

### Communication provides insight that is influential

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

### Information is relevant

- Funding and financing information from the balance sheet and cash flow statements, incorporating external information such as currency and interest rates, is easily accessible and broken down into the following categories:
  - segmented
  - actual
  - trends (incorporating prior periods)
  - forecasts
  - drivers.
- A treasury policy is maintained and is regularly reviewed by the board of directors or those charged with governance, based on corporate objectives and key risks.

- Cash flow forecasts allow a clear line of sight over where cash is tied up, including unpaid invoices and stock, as well as what and when cash is expected to be coming in. This is together with impending cash commitments including details of cash headroom based on committed bank facilities.
- An efficient cash management system is established that contemplates future growth of the enterprise, minimises idle cash balances and provides global visibility to cash positions.
- The sources of cash, existing debt facility covenants and headroom levels are known and documented.
- A system for managing intercompany transactions is established that balances local and enterprise liquidity and employs netting techniques and other best practices.

### Impact on value is analysed

- Cash flow forecasts are used to drive efficient capital structuring, investment activity and liquidity management.
- Variance analysis and effective controls test the accuracy of input from providers regarding cash flow projections.
- Robust credit management processes for controlling and collecting payments are carefully followed.
- Value chain partners are credit checked and their payment terms judiciously managed.
- The highest levels of automation available are applied to cash forecasting. Cash flow buffers are determined through the evaluation of cash versus debtor-investor positions.
- The organisation's exposure to fluctuations in exchange and interest rates is calculated and proactively managed.
- Exchange gains/losses, arising both from transactions in foreign currencies and translation of overseas subsidiary results in foreign currencies, are determined and modelled for impact.
- The funding of potential pension deficits and other long-term liabilities are incorporated into both short- and long-term cash flow forecasts.

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## Stewardship builds trust

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



## Internal audit

**Definition** – The provision of independent assurance that an organisation's risk management, governance and internal control processes are operating effectively.<sup>11</sup> It is sometimes referred to as the management review of controls.

### Communication provides insight that is influential

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

### Information is relevant

- The organisation has a risk and control framework that is available to all relevant employees and committee members.
- The objectives of audits are agreed with relevant stakeholders and documented.
- Audit plans are produced and reviewed annually and made available to team members.
- Audit reports identify potential opportunities for improvement and clearly highlight all material issues and instances of non-conformity.
- Legal and regulatory obligations relating to internal audits are understood, made available to employees and regularly checked to make sure they remain current.

- Controls policies are available to all relevant employees and a strong control culture of adhering to limits is promoted by management.
- The organisation's anti-fraud programmes are supported by internal audit employees who make their information available as required.

### Impact on value is analysed

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

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## Stewardship builds trust

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

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## 6. UPDATES AND RELATED MATTERS

This is the second edition of the Global Management Accounting Principles. The project remains an interactive, iterative and reciprocal relationship between our two organisations and others, including management accounting practitioners, academics, regulators, public sector bodies and the employers of management accounting professionals globally. A checklist to help you assess the effectiveness of your management accounting function is available at **maprinciples.com**. We expect to update the Principles within three years. To that end, we invite you to continue to engage with us via email and social media. Please join the conversation by visiting our dedicated LinkedIn group at: **<http://linkd.in/1wrB96t>**

The British Standards Institute have launched a publicly available specification PAS 1919 based on these Principles<sup>16</sup>. This is available to buy at **<http://shop.bsigroup.com/PAS1919>**

If you would like more information about adopting the Principles in your organisation, please email: **[principles@cgma.org](mailto:principles@cgma.org)**

## 7. GLOSSARY

TERM	EXPLANATION
AICPA	American Institute of Certified Public Accountants.
Business model	The International Integrated Reporting Council (IIRC) defines the business model as, 'the organisations' chosen system of inputs, business activities, outputs and outcomes that aim to create value over the short, medium and long-term'. <sup>10</sup>
Business partnering	The combining of accounting discipline with business understanding to contribute insights to decision-making and to influence the improvement of performance management.
Business partnerships	Any third party body along the value chain with which the organisation has a transactional relationship, for example customers and suppliers.
CGMA	Chartered Global Management Accountant – the designation of the CIMA and AICPA joint venture.
CIMA	Chartered Institute of Management Accountants.
Cost drivers	Any factors that cause a change in the cost of an activity, such as the number of client calls answered, hours spent on servicing an account or the number of sales personnel in a department.
Cost transformation and management	The exercise of cutting waste while preserving or enhancing value generation. It involves the sustained identification and reduction of waste across the organisation while freeing up resource to invest in innovation that will drive future value for stakeholders.
Data plans	The sourcing, assembling, refining, and presenting of all the data that is needed to evaluate and prioritise the execution of plans.
Ethics	The application of ethical values to business behaviour. Business ethics is relevant both to the conduct of individuals and to the conduct of the organisation as a whole. It applies to any and all aspects of business conduct, from board room strategies and how companies treat their employees and suppliers to sales techniques and accounting practices.
Execution	Implementation of plans over time.
External reporting	The provision of an integrated and comprehensive view of the organisation's financial and non-financial performance, business model, risks and strategy which together forms the basis for an effective assessment of expected future performance.
Financial strategy	The identification of the possible strategies capable of maximising an entity's net present value, the allocation of scarce capital resources among the competing opportunities and the implementation and monitoring of the chosen strategy to achieve stated objectives.
Global Management Accounting Principles	The fundamental values, qualities, norms and features that represent management accounting. There are four Principles: Communication provides insight that is influential; Information is relevant; Impact on value is analysed; and Stewardship builds trust.

TERM	EXPLANATION
Integrated thinking	The active consideration by an organisation of the relationship between its various operating and functional units and the capitals that the organisation uses or affects <sup>15</sup>
Internal audit	The provision of independent assurance that an organisation's risk management, governance and internal control processes are operating effectively. <sup>11</sup> It is sometimes referred to as the management review of controls
Internal control	A documented framework of policies, systems, processes and procedures for managing risks to value generation and preservation, the efficient and effective implementation and operation of the framework and the reporting on and supervision of the framework.
Investment appraisal	The assessment of whether or not to pursue a particular investment based on alignment with strategy, prioritisation of options, affordability and acceptable returns versus unacceptable risks.
Management accounting	The sourcing, analysis, communication and use of decision-relevant financial and non-financial information to generate and preserve value for organisations.
Management and budgetary control	The system of proactively controlling performance against predetermined targets at all levels of the organisation, which may include projects, people, activities, processes, sales volumes and revenues, resource quantities, operating costs and expenses, assets, liabilities and cash flows, as well as other non-financial measures.
Plan	A description of how the organisation intends to achieve its strategic objectives.
Practice area	Key activity undertaken by or with significant contribution from the management accounting function.
Price, discount and product decisions	Deciding what to produce or what service to provide and determining the selling price and discount structures for products and services.
Project management	Integration of all aspects of a project, so that the proper knowledge and resources are available when and where needed and above all, to ensure that the expected outcome is produced in a timely, cost-effective and quality controlled manner.
Regulatory adherence and compliance	The fulfilment of statutory and regulatory obligations in relation to accounting, statutory reporting, tax and other regulatory compliance. The objective is to prevent penalties and other enforcement activity and promote the reputation of the organisation for good corporate citizenship.
Resource management	The consideration of the priority of resource availability in the context of organisational decision-making. It helps organisations to efficiently and effectively manage transformational or continuous improvements to products and processes. It involves the alignment of resources, systems and employees to strategic objectives and the organisation's priorities.

TERM	EXPLANATION
Reviewing and refining	Assessment and reporting on past and forecast performance. Refining plans and strategies.
Risk management	The process of identifying, assessing and responding to uncertainty arising from the organisation's activities to support the delivery of its strategic objectives.
Scenario analysis	Generating insight from the results of different simulations to understand the effect on value of undertaking a particular opportunity and its associated risks.
Stewardship	The active management of relationships and resources so that the financial and non-financial assets, reputation and value of the organisation are protected.
Strategic tax management	The role of tax in financial analysis and decision-making while proactively managing the organisation's tax position so that legal requirements are met.
Strategy	The organisation's purpose is stated, its value proposition to customers and principal stakeholders is explained and core objectives defined together with their measures and targets.
Sustainability	The achievement of long-term economic performance while minimising environmental impacts and generating positive value for society.
Treasury and cash management	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.

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## Footnotes

1. <http://www.economistinsights.com/business-strategy/analysis/beyond-spreadsheets>
2. <http://bit.ly/digital-universe-pdf>
3. <http://techcrunch.com/2010/08/04/schmidt-data/>
4. *“The Art of Choosing”* Professor Sheena Iyengar, 2010
5. <http://www.millennium-project.org/millennium/challenges.html>
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7. <http://bit.ly/professional-conduct>
8. <http://bit.ly/cima-code-of-ethics>
9. <http://www.cgma.org/Resources/Tools/Pages/cgma-competency-framework.aspx>
10. [http://www.theiirc.org/wp-content/uploads/2013/03/Business\\_Model.pdf](http://www.theiirc.org/wp-content/uploads/2013/03/Business_Model.pdf)
11. <http://www.iaa.org.uk/about-us/what-is-internal-audit/>
12. <http://www.cgma.org/Resources/Tools/essential-tools/Pages/list.aspx>
13. *“Roads to Resilience”* Airmic, 2014
14. Principle C1 of the UK Corporate Governance Code requires boards to present a ‘fair, balanced and understandable’ assessment of the company’s position and prospects
15. <http://www.theiirc.org/resources-2/faqs/>
16. <http://www.bsigroup.com>

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