

Financial Management

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CIMA

Chartered Institute of
Management Accountants



Will business
deliver where
governments
fear to tread?

Sustainability

Trading places: why CFOs are returning to trade finance

International SOS's Ravindran Balakrishnan on his career

Robert Bruce on financial reporting and corporate governance

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Learn from... Zappos



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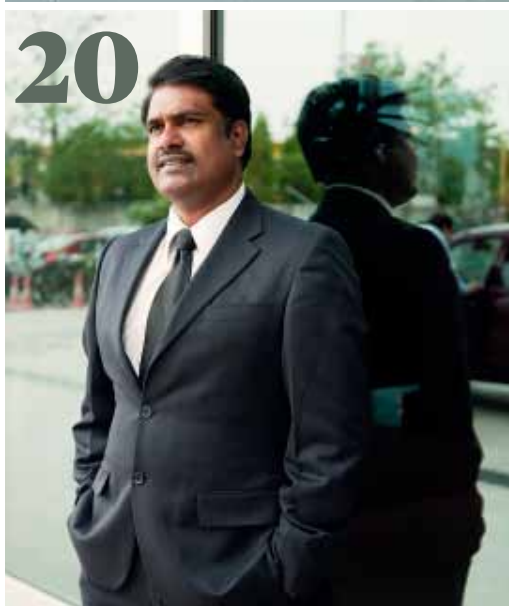
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Fighting off the fraudsters – p36



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Editor's note

Can the business world be the driver for sustainability, especially if governments and consumers are unable to provide the impetus? That was the question put to high-profile respondents such as Unilever CFO Jean-Marc Huët and former BP chief executive Lord Browne for our cover story.

It is said that “when the tide goes out you discover who has been swimming naked”, and the current high levels of corporate fraud are something that management accountants need to be aware of.

In this month's issue, we consider eight ways to prevent fraud and give details of a Mastercourse on “Investigating the dark side of business”. We also look at the impact of the Bribery Act a year after its introduction.

On the theme of skills and talent, our infographic conveys the scale of the global talent shortage expected by 2020 and 2030, according to the World Economic Forum.

On a positive note we reveal the impact the work of Cristina Ortega Duran's global commercial finance team at pharma giant AstraZeneca – delivering at least \$500m of improvements to the bottom line over the next three years.

Lawrie Holmes

Please send your comments and ideas to editor@fm-magazine.com or join the *FM* feedback group on CIMA Sphere at www.cimasphere.com/groups

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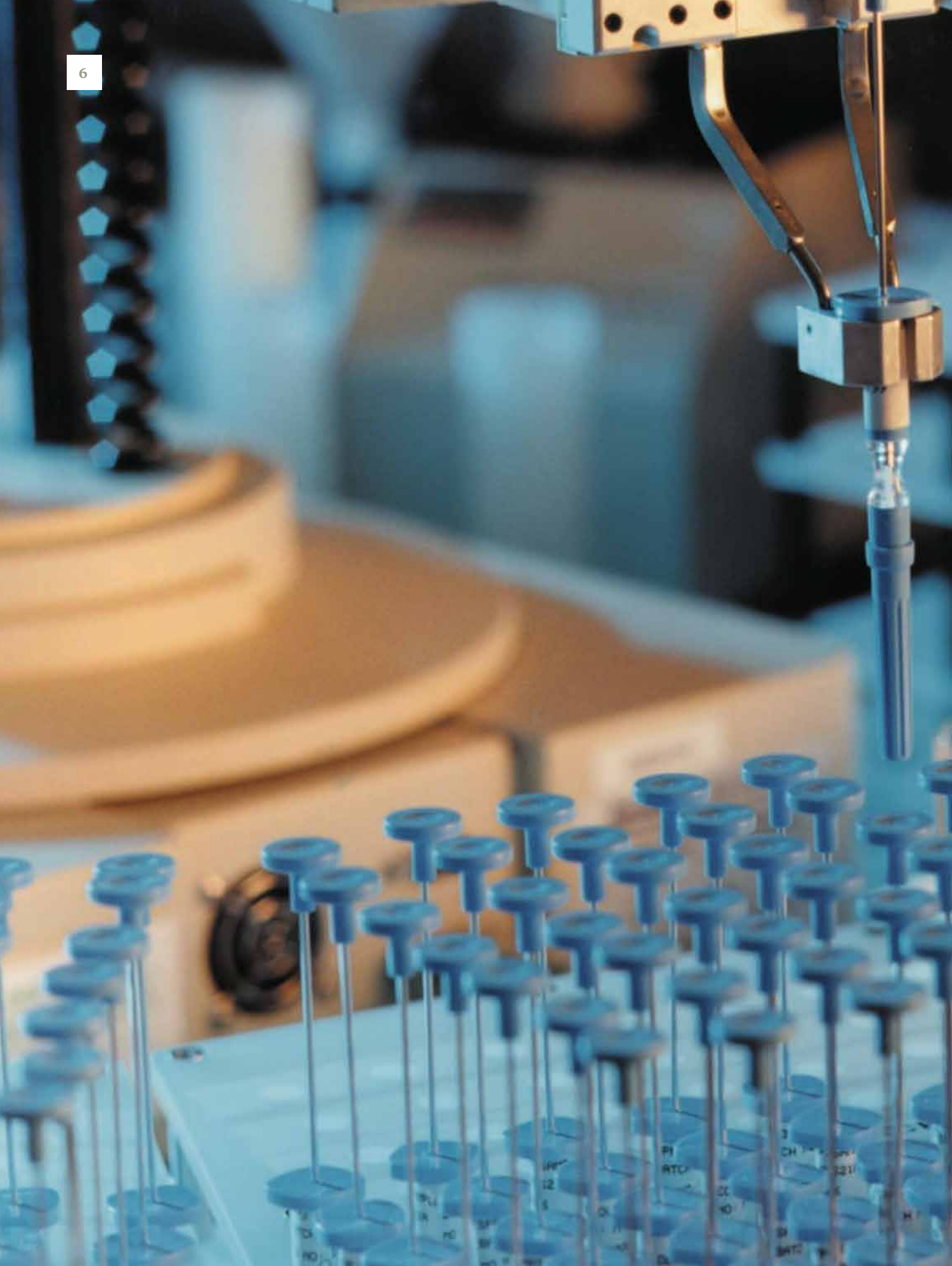
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www.cimaglobal.com



I work on... making a major difference to the bottom line at AstraZeneca

Start date 2011 **End date** 2013

My team is responsible for delivering a multi-million dollar improvement to the bottom line over the next two years.

This involves the finance team working closely with sales and marketing colleagues on business strategy reviews. Two basic ingredients were needed. First, building a talented team. Second, having a clear vision for finance business partners at AstraZeneca – we want to be the best in the industry at driving value for our customers and shareholders.

We had to prove ourselves by just doing it, rather than asking for permission. By this, I mean we had to learn who the key business contacts were on the strategy, both within commercial but also at a group level and other business areas. We also had to find out what the main questions were that the board wanted to review, what the annual process was and what had been done in previous years. We even set up the first meetings to discuss the strategy with our colleagues based on this knowledge.

Tools used included models to review product portfolio investment appraisals and the impact of organisational structure changes, forecasting different options on financial statements and company ratios and the resulting impact on shareholder value.

The CIMA qualification has been extremely valuable in preparing the team in our role as finance business partners. Specific skills gained through the CIMA qualification include:

- Providing the context of both the external and internal environment.
- Translating the implications of the external and internal environment into the commercial business shape and resulting shareholders returns – sales, contribution, cash and earnings per share.
- Developing different future “what if” scenarios and providing simulation analysis of long-term implications.
- Working with the business to evaluate different strategic options to both increase revenue and reduce costs.
- Providing a clear recommendation.



i **Name:** Cristina Ortega Duran
Role: Finance director, AstraZeneca global commercial finance
Industry: Pharmaceuticals
Location: London, UK
CIMA qualified: 2003

A word from the president

‘I have faith we can build a strong, sustainable future’



When I recently visited the CIMA India office in Mumbai, the first thing I was invited to do was to light a candle. It was the same when I arrived at my hotel in Sri Lanka for the Global Business Challenge final in July. This is a symbolic gesture to bring enlightenment – or perhaps a better word would be wisdom – to the staff and organisation as a whole.

In a similar vein, when CIMA’s chief executive, Charles Tilley, was asked to open CIMA South-East Asia’s newly renovated office in Malaysia, the ceremony centred on a lion dance that was introduced to ward off evil spirits and summon up luck and fortune.

During my travels as CIMA deputy president, and now as president, I have observed how business and spirituality converge. Clearly in the East, spirituality in the workplace appears to be open and shared.

In the West it seems to be far more closed and individualised. Indeed, if I lit a candle at CIMA’s headquarters in London, the only expected effect would be to set off the fire alarm.

I am not suggesting that spirituality or morality has died in the Western workplace. Only that it is considered a very personal and private experience. My conclusion is that Western spirituality may be more subtle, but evidently it’s still there in the small print.

Google’s “Don’t be evil” code is a case in point. Although the word spirituality is not specifically used, the company recognises the strength of trust and respect – the basis of every belief system. “Our commitment to the highest standards helps the company to hire great people, build great products and attract loyal users,” the code asserts. “Trust and mutual respect among employees and users are the foundation of our success.”

But in a summer when record fines were imposed on some of the world’s biggest corporate hitters – Barclays, GlaxoSmithKline, HSBC – for corporate malpractice, questions are once again surfacing. Has the Western business world’s moral compass gone into a terminal spin?

This topic came to the fore in a recent CIMA/Tomorrow’s Company lecture looking at leadership and values. Questions from the floor quickly got to the nub of the problem: in a world where modern business leaders must consider the interests of investors, stakeholders, the wider community and the environment, how can they be all things to all people?

Of course, CIMA members are obliged to adhere to a code of conduct. This is essential if good governance is to be observed. But those in positions of leadership can find themselves facing challenges that have no precedent and require a lot of soul-searching to find answers that are not compromised by the cut and thrust of the modern business environment.

I hope by now that you have managed to look through CIMA’s report, “The Invisible Elephant and the Pyramid Treasure”. It is essential reading because it asks the simple question: what do I need to do to become a better leader? By taking the time for self-analysis and moral reflection, business leaders can achieve what the report’s author calls “transpersonal leadership”. Focusing on these skills can enable leaders to rise to the multiple moral and ethical challenges they now face on a routine basis.

Personally, I have great faith that we can create a strong, sustainable future, both in business terms and in the wider social sense.

At the CIMA lecture, a young professional was quoted as saying: “I want the business I run in 20 years’ time to be a part of society, not apart from society.” These are wise words that we all need to take on board.

‘Those in positions of leadership can find themselves facing challenges that require soul-searching’

Gulzari Babber, FCMA, CGMA
CIMA president

Update



UK students rise to CIMA Global Business Challenge

CIMA's Global Business Challenge, an international competition held in partnership with Barclays and designed to bring out the best in potential young business leaders and provide them the opportunity to showcase their talent on a global platform, has been won by a team of students from the UK – while a student from South Africa has scooped the Future Business Leader Award.

The UK team, from Exeter University and called The Indivisibles, triumphed over stiff competition from 21 other regions at the event hosted in Sri Lanka. To secure the top prize, they presented a business case in relation to a hypothetical scenario based on CIMA's T4 case study. This was assessed by industry experts from organisations across the globe, including CIMA, Barclays and Unilever as the best response to the issues faced.

They were commended for showing a passion for business and a drive to succeed and the judges

stated that they had “provided innovative and practical solutions that balanced attention to detail with the appreciation of broad strategic issues”.

CIMA's Global Business Challenge continues to go from strength to strength, and has evolved from eight regions and countries in 2009 to encompass 22 this year.

Andrew Harding, managing director at CIMA, said of the Exeter team: “I would like to commend the Indivisibles on their outstanding performance and on becoming this year's CIMA GBC champions. The GBC is the most important student event in CIMA's calendar as it gives the world an opportunity to discover the business leaders of tomorrow and allows these future leaders an opportunity to showcase their talents on a global stage.

“I would also like to thank our global partner Barclays, global final partners Unilever Sri Lanka Limited,

Achievers Lanka Business School and official airline Sri Lanka Airlines for their support; as well as Mount Lavinia Hotel for hosting the final, all the judges, and of course the army of student volunteers from across Sri Lanka,” he added.

Other winners on the night included Eva Consulting from the University of New South Wales in Australia, who were awarded First Runners Up; New Dimension Consulting from Auckland University in New Zealand, who were awarded the second runner-up prize; and Sizwe Nxumalo from Witwatersrand University in South Africa who was awarded the GBC 2012 Future Business Leader award.

The 2013 CIMA Global Business Challenge will be held in South Africa, where 25 regions will compete. See www.cimaglobal.com for details.

● For more on the 2012 CIMA Global Business Challenge, see page 60.

App of the month

Our guide to the best online tools

Now on CGMA.org

For CGMAs, the following content is now available online:

- Improve risk analysis with eight key questions: The results of a comprehensive, organisation-wide risk assessment should be factored into all key business decisions. An International Federation of Accountants report offers tips on what to ask during a holistic risk assessment. Visit <http://tinyurl.com/bvxbeew>

- Risky business: How do leading finance chiefs tackle risk within their organisations? Executives from the financial, consumer goods, insurance and tech sectors weigh in on risks that keep them up at night and the strategies they use to assess risk position. Visit <http://tinyurl.com/8olx53k>

- Video: Managing responsible business: To discuss the pressures faced by

organisations and the CGMA report, Managing Responsible Business – A global survey on business ethics, a panel of experts discuss ethical culture, accounting for ethics, dilemmas, pressures and business issues.

Visit <http://tinyurl.com/9r2psvn>

- Top tips from the boardroom: The chief executive of one of the world's largest and most admired organisations shares key insights on innovation, human capital, and the evolving role of finance with CIMA chief executive Charles Tilley, FCMA, CGMA.

Visit <http://tinyurl.com/ca89y14>

- Seven steps to building a more effective leader: Want to be a leader and not just the boss? Listening and learning are just a couple of behaviours that will help you progress as a leader. Find out some of the other ways to improve leadership skills.

Visit <http://tinyurl.com/8rcdkzf>



Zoho Invoice

This app helps you to keep on top of invoicing by creating reminders, reports and invoices using a series of templates. It can track individual customer payments and has a dashboard to keep abreast of things. The app can also be used to accept payments.



Cost: Free (paid-for plans available)

Category: Business

Updated: 14 February 2012

Current version: 1.7

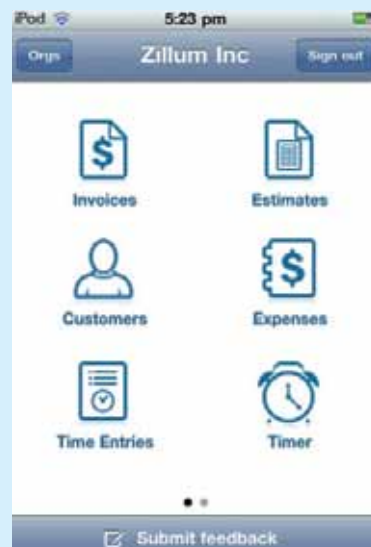
Size: 3.0 MB

Language: English

Developer: Zoho Corporation

Compatible devices: iPhone and iPad

System requirements: iOS 3.0 or later





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- You own personal Marketing Department with a Marketing Manual you design
- A detailed Department manual by experienced Qualified Accountants that you will have immediately access to

Update

Survey reveals pressure to behave unethically – but progress being made

A new report says that the provision of ethical guidance for staff is increasing, although pressure to compromise on ethical standards remains a problem.

The CIMA report – “Acting under Pressure” – also sets out solutions for tackling these pressures. The report, which draws upon the 2012 CGMA survey of 1,760 CIMA students and members, reveals one in four feel working with colleagues from different functions is the most likely scenario from which pressure to act unethically may arise.

In addition, one in three CIMA

students feel pressure from colleagues or managers to compromise ethical standards.

Twenty-eight per cent of students, compared to 15 per cent of members, had witnessed conduct that violated ethical codes, implying senior management may not be aware of the problem.

However, these concerns arise amid encouraging evidence that organisations are striving to uphold ethical standards.

Eighty per cent of respondents said that their organisation provides a code of ethics for staff,

while 73 per cent feel their senior management “lead by example”.

Focus groups were held in five CIMA markets – the UK, Malaysia, Pakistan, Sri Lanka and South Africa – exploring ethical scenarios and identifying pressures and solutions.

“Both assessing and reporting on ethical information helps highlight what is working, and where there are shortcomings,” the report stated.

“CIMA recognises this global pressure to act unethically and seeks to tackle it.”



Hot potato This month's dilemma:

I'm a CIMA member working in internal audit for a company with overseas subsidiaries. I'm concerned that one of these subsidiaries makes purchases from a local firm that is known to be involved with corruption (bribery and payments off record etc). I do believe, due to systems we have in place, that our particular contract is run well, but I am not confident that this is the case in relation to their activities with other clients.

Our response:

With the global jurisdiction of both the US's Foreign Corrupt Practices Act

and the UK Bribery Act, any association with an organisation known for corrupt practices should be carefully considered. It seems that you have undertaken due diligence in respect of the local firm and it appears to pose both a reputational and commercial risk. Should an instance of bribery occur in relation to your business it may have consequences under UK law in relation to adequate procedures, see: www.justice.gov.uk/legislation/bribery. Also consider safeguards listed in the Code of Ethics in section 300.14

For the code and other online ethics resources, visit www.cimaglobal/ethics

Tanya Barman, head of ethics, CIMA

Disclaimer

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Update

Risk must be at core of strategy

Airmic chief executive John Hurrell delivered a powerful message about risk management at the latest “Tomorrow’s Value” lecture.

Hurrell’s lecture – “From Ruin to Resilience” – to 70 leading professionals discussed how risk and related issues must be at the core of business strategy. He said that it often made the difference between business success and failure, against a backdrop of high-profile risk-management failures across the global economy.

He added that when things don’t go to plan, a risk is almost always known by someone in the organisation, but all too often this isn’t communicated, understood or acted upon, doing little to build the “resilience” that prevents “ruin”.

Hurrell also outlined the findings of Airmic’s “Roads to Ruin” report undertaken by Cass Business School.

It showed that 18 of the most catastrophic failures in risk management



over the past decade shared the same seven key points of failure in varying degrees, which can broadly be described as failing to manage the “risk management glass ceiling”.

During his closing address, CIMA chief executive Charles Tilley said organisations must avoid over-sophisticated risk systems that prevent the board from identifying and dealing with the most crucial risks.

The “Tomorrow’s Value” series of lectures are organised jointly by CIMA and Tomorrow’s Company.

Videos of previous events can be found at:

www.cimaglobal.com/tomorrowsvalue

CIMA South-East Asia signs Pledge

CIMA South-East Asia has signed up to the Corporate Integrity Pledge, signifying its commitment towards creating a business environment that is fair, transparent and free from corruption.

The Corporate Integrity Pledge is an initiative created by the Malaysian Institute of Integrity and is aligned with the objective of fighting corruption under the Government Transformation Programme of Malaysia. It has already garnered the support of companies such as AirAsia, Tesco Malaysia, Google Malaysia and Shell Malaysia. CIMA South-East Asia said it was proud to support this initiative as ethics is high, not only on its own agenda, but that of business globally.

As every CIMA member and student is obliged to uphold integrity via the Code of Ethics, CIMA South-East Asia aims to support initiatives that help promote the corporate culture that leads to responsible business and long-term success.

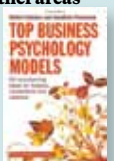


Book in brief

Top business psychology models: 50 transforming ideas for leaders, consultants and coaches
By Stefan Cantore and Jonathan Passmore
Kogan Page, £24.99

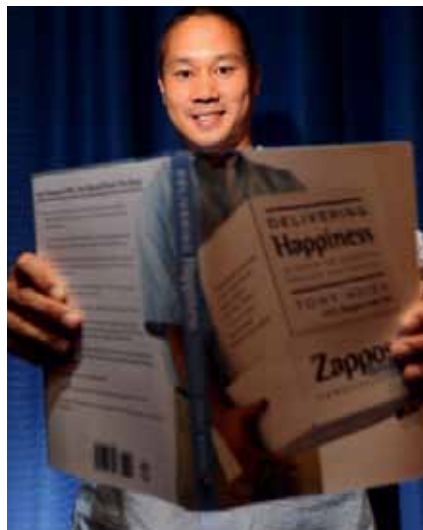
Intended to provide readers with a practical translation of the most impactful theories and models of human behaviour published in organisational science, the book provides the fundamental theories and frameworks that can help explain ideas such as how to cope with change and deal with difficult people at work. Here is a brief synopsis of the argument:

1. There are several models that coaches can use to help individuals to understand human behaviour at work
2. Organisations need to use and apply tools that help them understand their human capital.
3. Links between human physiology, spirituality, philosophy and psychology are all fertile grounds for new theories.
4. There are fuzzy boundaries between aspects of business psychology and many other areas of practice that have implications for our performance at work.
5. New knowledge is being sourced from positive, educational neuropsychology.



Learn from... The happiness at Zappos

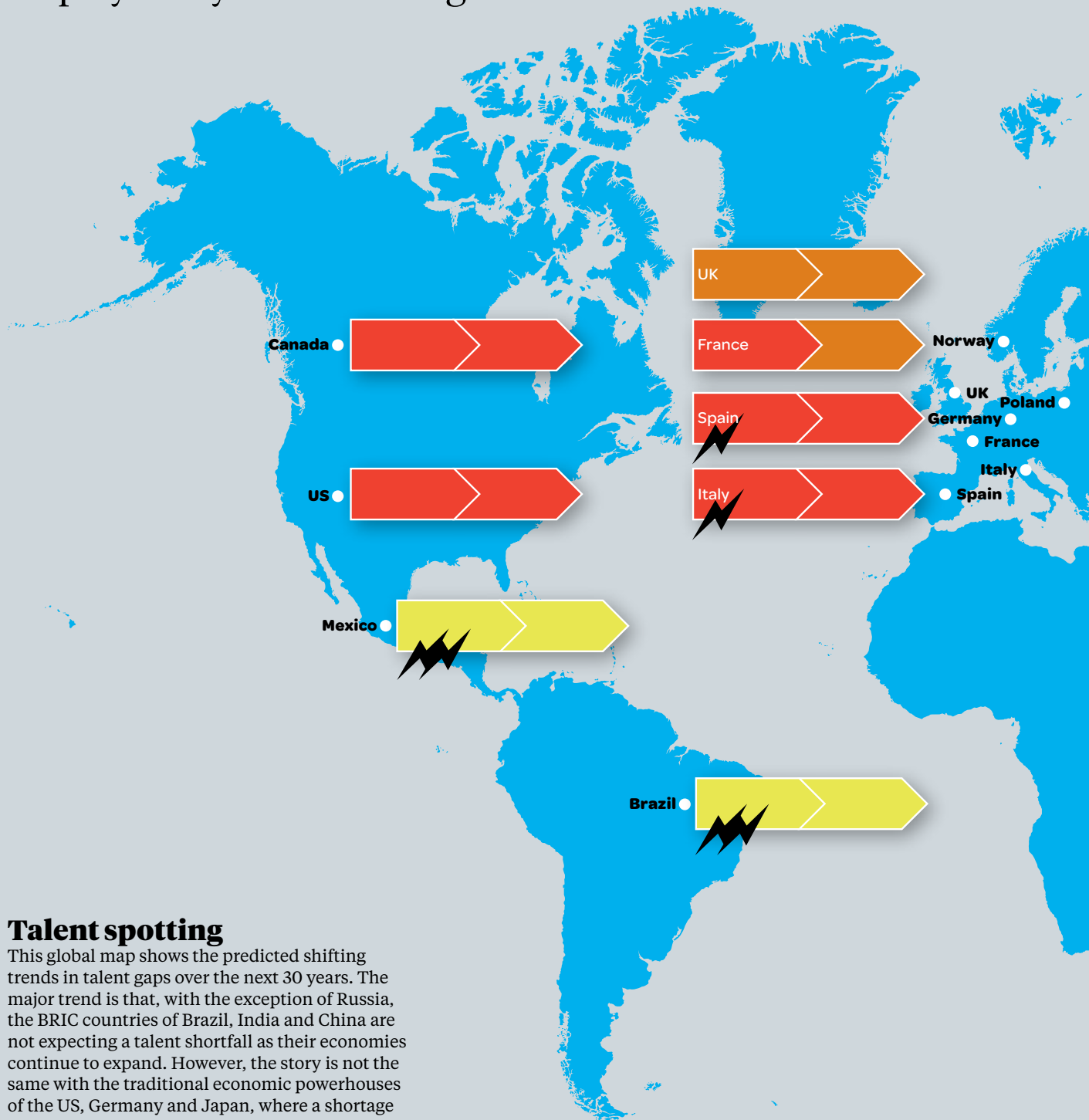
Zappos, the US’s largest online shoe retailer, has achieved success by nearly every conventional measure. However, CEO Tony Hsieh says its unconventional culture, based on happiness, is what drives its success. He says that by focusing on company culture everything else, such as building a brand with sustained revenue growth and passionate employees, fell into place. Zappos encourages staff to “create fun and a little weirdness” in the workplace. It carefully vets each new applicant for a cultural match, and offers new employees \$4,000 to quit after their first week of training to weed out those who are there just for the money. The approach seems to be paying off – Zappos consistently ranks as one of the best places to work in annual workplace surveys from industry monitors, including *Fortune* magazine.



The Data

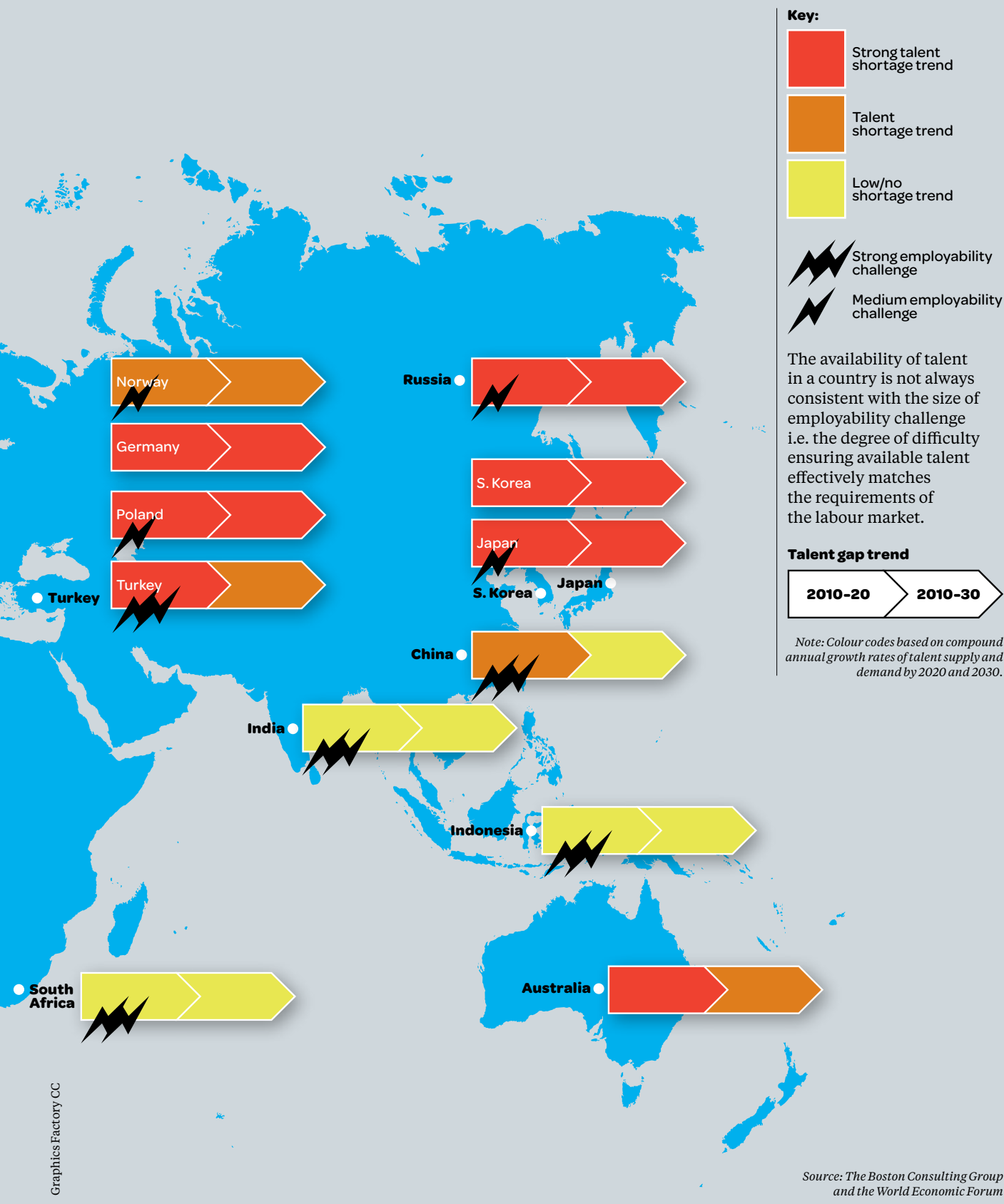
Significant talent gaps expected by 2020 and beyond

In countries with no talent shortage trend, employability is the challenge



Talent spotting

This global map shows the predicted shifting trends in talent gaps over the next 30 years. The major trend is that, with the exception of Russia, the BRIC countries of Brazil, India and China are not expecting a talent shortfall as their economies continue to expand. However, the story is not the same with the traditional economic powerhouses of the US, Germany and Japan, where a shortage of talent is expected to continue all the way through to 2030.



Forum

From the blogs

Learn from Andy Murray's approach

Now, I know what you are probably all thinking: this is a CIMA blog, so why on earth is the title about a tennis player?

Well, I'm a big tennis fan and Andy Murray is a particular favourite of mine.

One of his targets over the past few years has been to win a major title – one of the Grand Slams. Before this year's Wimbledon he had reached three finals and never won a set, so he could be forgiven for becoming a little disheartened.

But this time he managed to reach his first Wimbledon final and came out fighting, despite playing one of the best competitors in the game.

After taking the first set (his first ever in a Grand Slam final) he unfortunately came up short and ended up losing out to Roger Federer – who now has 17 Grand Slam titles to his name.

During an emotional post-match interview he reiterated how determined he is to win one of his own, and how each loss makes him more determined.

Still confused? Well, as the exam results are now out, I just wanted to remind you that

even if you don't get the result you want this time, you too should keep trying and, just like Andy Murray, will keep on improving if you do.

*Lizzi Martin,
CIMA student, Dorset*

Is the RBS way the right way?

Following the computer systems failure at the Royal Bank of Scotland (RBS) recently, which left millions of customers without access to their bank accounts, RBS is now considering legal action against its technology suppliers. But I don't know if you spotted the following interesting comment in the *Financial Times*.

"The board of the bank, which is mostly owned by UK taxpayers, spent much of yesterday debating the software failure at a strategy day that was to have focused on longer-term issues."

Now, I'd better declare my interest in RBS. I am both a private shareholder, as well as being one by virtue of being a UK taxpayer. I am also a customer and former employee. I'm going to look at this question from a perspective of whether the board was practising good governance.

On the one hand, this was a major problem for RBS,

Poll of the month

We asked...

Will FDs becoming more involved in pension decision-making be beneficial for companies?

 More FD involvement will be a great help to companies: **49%**

 It will help a little: **29%**

 It won't make much difference: **19%**

 It will have an adverse effect: **3%**

Source: Survey on fm-magazine.com, 2012

with repercussions for its reputation. It was entirely right for the board to discuss it, understand how it had occurred and ensure that the response was adequate. I've got no problem with that. But all day? And at the expense of longer-term issues?

This begs the question of where the boundary between strategy and tactics lie. You could argue that banks are such crucial "public services" that their core function is to ensure the smooth transmission of money around the system.

Anything that impacts on that should therefore be considered a major strategic issue. In fact, the more time they spend on getting their

basic function right, the less time the board has to spend on conjuring up ever more complicated strategies for the future.

In view of recent history, you could say that this is a very good thing and, as the governor of the Bank of England has recently pointed out, banks should "stick to their knitting".

So in fact, spending a day pondering the implications of a major software breakdown does represent the most appropriate strategic use of the board's time, or the best way of securing the bank's future.

*Gillian Lees, head of
corporate governance, CIMA*

(FM reserves the right to edit letters and blogs for length and clarity.)

You asked...

What are the advantages and disadvantages of HR succession planning?

The most important resource for many organisations is employees. Consider industries where high levels of individual skill are a key source of competitive advantage. Continuity in these types of organisations depends heavily on a pipeline of new individuals coming through, either internally or externally, to replace those who leave or retire.

It is widely accepted that the advantages of HR succession planning outweigh the disadvantages, but there are instances where, for example, an unsuitable successor adversely affects corporate performance. Also, the company may fail to recruit a more effective person who then joins a competitor.

There is no guarantee that an organisation has the skills

to effectively plan HR succession. A lack of commitment and resources to any business planning exercise can limit its chances of success.

Send in your own queries to questions@fm-magazine.com. We will ask a specialist or tutor to provide a response

Opinion

Robert Bruce

Former accountancy editor of *The Times*



Efforts to improve corporate governance in the wake of the financial crisis should have financial reporting at their heart

There has been remarkable consistency in the types of restorative measures advocated around the world in the continuing aftermath of the financial crisis. What has been lacking is any idea of how to make any of them really stick and bring about the change that their supporters advocate.

Take the arguments about short-termism. In late July the UK government published the report it had commissioned from economist Professor John Kay. "Restoring relationships built on long-term trust and confidence and realigning incentives across the investment chain should be the basis of a much-needed shift in the culture of the UK's equity markets," was how it led off. And the report realistically berates corporate leaders who, like politicians, see themselves in power for only a relatively short period of time and so seek to maximise what can be done in the time available. Initiatives that may pay off 20 years down the line are not going to appeal," says the report.

"Failed banks," it says, "were characterised by acute short-termism and serious hyperactivity." And this is true of companies too. They tend to concentrate on existing products rather than looking ahead and developing new ones. "And they may then seek to compensate for these weaknesses by frequent reorganisation of the portfolio of businesses the company owns," the report suggests. "Such behaviours damage the company's market position and reduce its value in the longer term." But in the longer term the managers are not going to be in situ. And, in any case, after an examination of several corporate disasters, the report says: "Many of the bad decisions described were supported or even encouraged by a majority of the company's shareholders."

So the responsibility runs deeper. And there are also wider lessons for the preparers and providers of corporate information around the world. Regulators encourage them into the same straitjacketed position.

"An annual report is not easy to read," says the report, "because its format is driven by regulatory requirements and those who write it often have little inclination or incentive to communicate information



beyond that required to fulfil that obligation." The assumption is that no one reads this stuff because they really want to. Professor Kay points out that: "The writers of annual reports mostly do not seek to attract readers to the next edition."

And the report goes on to suggest that there may be a flaw at the heart of financial reporting around the world. Globally, the drive towards common, comparable and relatively easily-understood financial reporting continues. US efforts may have faltered in recent weeks, but the enthusiasm and drive elsewhere is undiminished. International Financial Reporting Standards (IFRS), are required in two-thirds of G20 economies and almost half of the *Fortune* 500 Global Companies use them. It has become incomparably easier to do business and raise capital around the world as a result.

But the Kay report raises the worry that "this trend may have emphasised comparability at the expense of relevance". The advantages of, say, a Chinese bank investing in one in South Africa, are obvious. The one language they have in common is that of IFRS. But that also makes the business decisions more anonymous, less involved with the detail of the who and the what within the businesses concerned. "Comparability", says the report, "benefits large international accounting firms, who aggregate data derived from the global operations of their clients, and comparability is necessary for traders who have little or no relationship with the companies in which they invest."

So it becomes a question of whether all this global interconnectivity is a force for good, or something else. "The search for comparability," says the report, "is the product of an environment which emphasises the role of anonymous markets, in which investment decisions can be made without specific knowledge of the companies in which funds are invested."

And here lies the problem for all current reforms. Do you pare life down to the simple figures? Or should your corporate actions be informed by something wider? The question that remains is a simple one. How far have we confused data with information?

'Companies tend to concentrate on existing products rather than looking ahead and developing new ones'

Ravindran Balakrishnan, ACMA, CGMA, Chief financial officer, International SOS, India

Interview by Lawrie Holmes

How did you start out in finance?

I became interested in a career in management accounting after studying for a commerce degree and then a Masters degree at the University of Bangalore. Before that, I was always more interested in mathematics at school than the science streams. At university I undertook a couple of professional qualifications, including one from the Institute of Cost Accountants of India. This was to ensure that I was able to use the qualifications to enhance my career prospects.

My first job was as an executive trainee in costing and accounting for a cashew nut exporter in Chennai. I spent two years there, in which time I was promoted to assistant manager. I then moved to Amalgamations Group, one of India's largest light engineering companies. I worked in the flagship company of Amco Batteries in the nickel cadmium battery division as an assistant manager and ended up as finance head of the arm in 1999, six years later.

How did you develop your career?

The following year I moved to Africa to work at Uganda Pharmaceuticals, a division of the House of Dawda Group that the conglomerate bought out of government ownership in 1996. I started as a finance manager. Within a year, the company offered me the role of general manager of commercial, production and finance. I became involved in procurement – travelling to Kenya, China and India to negotiate with suppliers, as well as overseeing the production activities at the pharmaceutical formulation unit and the core function of finance.

I began the CIMA qualification in 2000 to develop my business career. After completing the my exams in 2003, I moved to Canada to further improve my career prospects. This was partly because there were limited options in

Uganda and because it was also relatively easy to get immigrant status to live in Canada because of the multiple professional qualifications that I obtained.

I started work at the Royal Bank of Canada, involved in the reporting process in the insurance division – a position that had been outsourced. In hindsight, I realised that the role was a basic version of what I had been doing in India 15 years earlier. I made a decision to look at new horizons, partly because my children were finding it difficult to acclimatise to the harsh Canadian winter.

What is International SOS and how did you become involved with the company?

The company was launched in Jakarta, Indonesia as AEA International with 15 employees and is now known as International SOS (<http://www.internationalsos.com>). It is the world's leading medical and security services company, operating from more than 700 sites in 70 countries with 10,000 employees, led by 1,100 physicians and 200 security specialists. Our global services include medical and risk planning, preventative programmes, in-country expertise and emergency response for travellers, expatriates and their dependents of more than 70 per cent of the *Fortune* 500 companies.

I started work in International SOS's Nigerian office, covering West African countries such as Ghana and Equatorial Guinea.

I arrived here after initially considering developing my career in the growing services and oil and gas industry in the region. International SOS provided me with the opportunity to use my pharmaceutical experience in Uganda and post graduation, where I was involved in a costing project for the pharmaceutical industry (Karnataka Antibiotics and Pharmaceuticals, Bangalore, India).





How has your career developed within the organisation?

In 2008 I moved to the Asia region and to the regional headquarters in Singapore. The group has two international headquarters – one in London and the other in Singapore. The role was that of regional financial controller in charge of projects such as implanting GAAP accounting and process control.

During this time, I was tasked to take up a three-month assignment to one of the Asian countries, which resulted in me becoming the CFO of the country's office for a year. This was because the division was running continuous losses in previous years and required attention. I had to dig deep to find the reasons behind the issue. There were many strategy decisions that had to be taken along the way, including setting right the processes and controls, which resulted in turning around the operation within a year.

In January 2010, I accepted the position of chief financial officer of the Indian operation after the CFO quit the role the previous year. I moved my family to Delhi and I have remained in the role ever since.

What are the key aspects of your job?

Knowing different cultures and sentiments, working with cross-sections of people, and understanding and delivering everyone's expectations are the keys to success, and it is most satisfying when you are rewarded by people having a good attitude towards you.

One aspires to climb the ladder and achieve and improve in an organisation, but seldom do people

think about people around them. I like the slogan of my company, which is "Worldwide reach, human touch" or just saying "Touching lives every day".

What are your biggest achievements in your career?

Several stand out for me. While working for the Amalgamations Group I was responsible for reducing costs by six per cent and enhancing gross margins by four per cent in battery manufacturing. While working for House of Dawda, I delivered a leading major benchmarking assessment, reducing supply chain costs through better negotiations and throughput procurements, thus reducing operating costs by eight per cent in the pharmaceutical formulation unit.

In Nigeria, I was chosen as Critical Professional for International SOS. In Singapore, again in International SOS, I was responsible for delivering a specific KPI called contractual invoicing timing, which was key to improving the billing of corporate members who pay for their services up front. For a company that is not equity-leveraged, this KPI is vital to ensure shortening of the working capital cycle and the ploughing back of cash profits into the business.

How has the CIMA qualification helped you in your career?

One of the best things about the CIMA qualification is that it has helped me take the knowledge I acquired in areas such as cost accounting and management accounting to

'I like the slogan of my company, which is "Worldwide reach, human touch"'



Q&A

the next level. It has given me the confidence to work with other areas of the organisation, such as sales and marketing, operations, services and human resources.

CIMA is an international qualification and to achieve the status of ACMA provides a great sense of fulfilment and achievement. The recognition of the CIMA qualification internationally makes the membership status known instantly.

My wife, Latha, who has a Masters degree in commerce herself, has been a constant source of inspiration for me. She supported me throughout my studies for the qualification. Now that I am a CIMA member, she will always remind her friends and other family members that perseverance will work and one should be patient in acquiring such qualifications. Family and friends look upon me as someone who is both professional and has gained an international rank, and thus often come to me for advice and help.

How do you see CPD as being of value to you in keeping your qualification relevant to the constantly changing business environment?

When I was studying towards CIMA, I wrote an internal paper that emphasised that the skills

gained while acquiring a qualification should not be unduly wasted by not continuously developing them. Today, institutions have CPD to ensure that members are continuously abreast of situations or nurturing professional developmental skills.

It is imperative for all CIMA and future members to undergo CPD programmes every year. In today's world, it is important to constantly challenge different sections and functions in order to achieve cost efficiency, higher productivity and improved effectiveness, all adding to the bottom line.

To be able to attend CPD events and other sessions run by CIMA is satisfying for me as a CIMA member, and I often look forward to such events.

'It is imperative for all CIMA and future CIMA members to undergo CPD programmes every year'

What advice would you give CIMA students/members considering working in or building a career in a global organisation?

The CIMA qualification is a powerful tool for building a career. But even if one has the qualification on board, that individual still needs to have a good sense of the career direction they are seeking. They need to see where they can go and where they can use the knowledge they have acquired so far.

As their career develops they will find they are increasingly part of a management team looking to "put the boxes together" i.e. bring strong skill sets together. Ambitious management accountants need to realise that although they have been identified as important leaders of the future, it may not happen immediately.

When I started in India I was just another accountant in terms of what I was trying to do. Once I started the CIMA qualification I was able to focus on how one can impact the strategy by using the acquired knowledge in order to provide support to management.

The result has been a career in which I have been able to work around the world, seeing how different cultures respond to the various local challenges. It has also taught me how to communicate effectively, which is vital in a senior finance role in a global organisation.



CAREER LADDER

2010: International SOS – chief financial officer, India.

2009: International SOS – chief financial officer, Philippines.

2008: International SOS – financial controller, projects, Asia.

2005: International SOS – country accounting and finance manager.

2004: Royal Bank of Canada (RBC) Insurance – consultant.

2001: Uganda Pharmaceuticals – general manager – finance, administration and commercial.

2000: Uganda Pharmaceuticals – finance manager.

1999: Amco Batteries – manager, finance and accounts.

1998: Amco Batteries – deputy manager F&A.

1997: Amco Batteries – assistant manager F&A.

1994: Amco Batteries – accounting supervisor, F&A.

1992: MVR Industries – assistant manager, finance and accounts.

1992: MVR Industries – trainee, accounts.





Sustaining vision

Companies worldwide are being asked to lead the debate on sustainability. The tools are available, but does the corporate world possess the will to take the lead, asks Lawrie Holmes

The failure of 120 world leaders at the Rio+20 Earth summit in June to set a new path for global sustainable development provoked a discussion on where the leadership for those issues would come from.

That debate was reignited the following month at the Re|Source 2012 conference in Oxford, UK, at which the fundamental question of whether business could take the lead was put to both speakers and delegates. An eclectic mix of delegates, including business leaders, fund managers, academics, military and NGOs, came to varying conclusions. But can a consensus be formed on the subject?

Jean-Marc Huët, the chief financial officer of Anglo-Dutch consumer giant Unilever, says that a historical reliance on governments to deal with these challenges no longer works. "Our way of running national governments has simply not kept up with a world that has become increasingly interdependent. Countries representing 60 per cent of the world's GDP are actually in election run-ups, which for many means the focus is on the short term only.

"The euro crisis has not only highlighted the political challenges we face, but also the lack of courageous political leadership – something the recent Rio summit threw into sharp relief," says Huët. "In an environment where leadership has been abdicated, business needs to step up. It is clear to many that we cannot wait any longer and have to move forward, with or without government."

Huët says that it was business that led the way at Rio, along with other organisations – such as the Corporate Sustainability Forum, the Friends of Rio group and the UN Global Compact Board – agreeing on at least 100 major commitments. He says that these commitments – on deforestation, natural capital, female empowerment, higher education and action on water are increasingly bilateral agreements between responsible companies, civil society and some of the more willing governments – are the legacy of Rio.

"I'm optimistic that there are enough businesses and others who are willing to fill the void and take on responsibility for some of the world's challenges. I actually think that this was perhaps the most significant outcome from Rio," adds Huët. "If responsible businesses don't act to fill some of the void left by politicians, the result is almost unthinkable. Leadership needs to take two forms: one is internally, to inspire employees. Most people want to work for something more than just money, they want to feel they are making a contribution to improving things. As business leaders, we need to be able to demonstrate that our business model can do just that."

Gerritt Heyns, a partner at Osmosis Investment Management, says there is a misconception around the role that the business world has taken so far in championing sustainability issues. "Most people fail to comprehend that the corporate community has taken the lead on sustainability and has done so for decades," he says. "The single most important reason for this is that sustainability is not as much a social issue as it is an economic imperative. Forward-thinking management teams have embraced this concept for many years and have been rewarded by the markets for doing so."

Heyns cites US copper miner Freeport-McMoran as a good example of a company that is striving to achieve more sustainability targets. "It is not necessarily an environmentally friendly business, but we need copper in nearly every aspect of our modern lives. As one of the most resource-efficient producers of copper in the world, Freeport is a leader in sustainable copper production. Now, where is the magic bullet in that story? It's not in the social issue of copper mining, it's in the ability of Freeport to produce more units of copper per unit of resource. It's a corporate management story."

In it together

It is in the area of natural resources that many voices might question the viability of any sustainability programme. Dr Julia Mundy, a professor in accounting and finance at the University of Greenwich in the UK, says that while corporates who view sustainability issues

'The public sector is most likely to take the lead because it has enormous experience in attempting to balance financial and societal concerns'

as central to their economic success certainly have a crucial role to play, it is beyond the means of many in certain industries. "We should remember that a lot of economic activity – by its very nature – is simply not sustainable," she says. "In reality, the public sector is most likely to take the lead because it has enormous experience in attempting to balance financial and societal concerns. So in that sense, rather than through regulation, governments are vitally important."

Lord Browne of Madingley, the former chief executive of UK oil giant BP and now a partner of investment firm Riverstone Holdings, is familiar with the challenges facing resources companies. As the architect of the Beyond Petroleum branding at BP, he was responsible for seeking leadership on sustainability in a notoriously entrenched industry.

Lord Browne says that the greatest benefits come when business, government and consumers move together on an issue. He cites the example of carbon emissions, where he found his efforts to push forward on this issue while running BP were constrained by governments and consumers not supporting his initiative.

"Governments need to provide regulatory environments that ensure that businesses are not disadvantaged if they choose to reduce their emissions, and that they are rewarded when they do," he says. "As for consumers, they need to see some value in changing their buying habits. Only then, with businesses, governments and consumers working towards the same goal, does society gain the greatest benefit. Business can take the lead ahead of governments and consumers, but all three must eventually move together."

Most governments are so slow and incoherent in solving big problems that it falls very largely to the most effective institutions – private enterprise, co-evolving with civil society and sped by military innovation – to take the lead, going round our least effective institu-

tions, says Amory Lovins, chairman and chief scientist of think tank Rocky Mountain Institute in the US.

Professor Charles Godfray, director of the Oxford Martin Programme on the Future of Food, at the University of Oxford, agrees. "I rather hope action occurs on all fronts as no one sector can go it alone. I think leadership by corporates will help governments and civil society in this shared journey," he says.

Who dares wins

For companies to drive sustainability a high degree of first-mover advantage is often the carrot for pushing an initiative. Lord Browne offers the example of Nestlé, a first mover when it came to healthy and nutritional food. "This cost its rivals dearly. They had failed to spot a trend that seems so obvious in hindsight," he says. "A company will never have the resources to lead

'Business can take the lead ahead of governments and consumers, but all three must eventually move together'

on every single issue, but where an issue is a priority for your stakeholders – whether customers, suppliers, regulators or other organisations – there is certainly a first-mover advantage to be had."

Heyns argues there have been first movers in the space since the start of the Arab oil embargo in the 1970s, when it became real that global resources generally were limited. "As a global population, we have become more energy efficient by nearly a percentage point per year since the beginning of the Industrial Revolution in the early 19th century. It is a human trait to innovate and to do so continuously," he says.

But Dr Mundy is less positive about the prospect for first movers. "There are clearly PR benefits available to companies that are seen to be pioneers in dealing with sustainability issues, but the evidence suggests that consumers are unwilling to pay more and investors are unwilling to forego short-term profits," she says. "The companies most likely to benefit are those where sustainability issues are fundamental to their long-term success, such as those dependent on non-renewable fuels for their manufacturing processes, forcing them to innovate in every aspect of their operations."

For Unilever there is less emphasis on moving first and more on planning for the long term. The com-



Business

pany removed annual financial target guidance in 2009 and drew back from full quarterly reporting last year. Huët says that the moves were designed to try to align the views of external stakeholders more closely to the business and to give the company itself more of the flexibility it needs to properly manage its business.

Huët says that consumers are increasingly starting to look behind product brands to the companies that make them, and then to make buying decisions based on what they see.

“Those companies that ignore this trend will follow the dinosaurs into extinction,” he says. “In some senses, it’s also enlightened self-interest. Our business depends on being able to have a sustainable supply of raw materials for its very existence. It’s in our interests to drive both our own factories and offices and, more importantly, our supply chain to wholly sustainable sourcing as soon as we are able.”

Seeing is believing

The real value of taking a lead on sustainability is only really felt if it is communicated effectively, some observers suggest. Dr Mundy says companies have a major role to play in influencing attitudes and behaviour. She says they need to communicate their vision and plans for dealing with sustainability concerns, and

‘The companies that ignore this trend will follow the dinosaurs into extinction’

show how these link to their current activities. Detailed labelling of products, use of renewable energy sources and certification schemes for suppliers are some examples where companies can demonstrate genuine leadership rather than simply a “box-ticking” approach to sustainability, she argues.

Lord Browne says that many companies get it wrong. He says it is not enough to just hold up a glossy CSR report as evidence of sustainability. “Sustainability simply cannot be communicated through a propaganda operation that involves repeatedly saying how brilliantly your company behaves,” he says.

Lord Browne says effective communication needs three things. First, a business needs to define what it contributes. He says it needs to be explicit about how the fulfilment of its purpose benefits society, because people forget that only a tiny proportion of a business’s contribution can be found in, for example, the vaccines it donates or the charities it supports. Businesses con-

The way forward

Integrated reporting is an approach to corporate reporting that demonstrates the links between an organisation’s strategy, governance and financial performance, and the social, environmental and economic context within which it operates.

According to the International Integrated Reporting Council (IIRC), which is developing an integrated reporting framework, it can help business to take more sustainable decisions and enable investors and other stakeholders to understand how an organisation is really performing.

IIRC chief executive Paul Druckman says progress is being made with a draft framework for integrated reporting. It is expected in March and follows a roundtable in 2009 in which accountancy bodies, including CIMA, the IASB and the IFAC, committed to developing a framework.

Unilever CFO Jean-Marc Huët says on integrated reporting: “If we want people to properly judge a company on more than its financial performance, integrated reporting is an important step towards bringing this about. Businesses have been run with the shareholder as the prime focus for too long. Businesses – certainly those like Unilever – should concentrate on staying close to consumers and serving them well, making it easy for them to make the right choices for the planet at the same time.”

From a shareholder perspective Gerritt Heyns, a partner at Osmosis Investment Management, says: “In some form, integrated reporting will become the norm. As the investment community accepts the materiality of non-traditional, non-financial information and learns to use it practically in valuation models, the transition will gain momentum.”

But Lord Browne of Madingley, the former chief executive of BP and now partner of investment firm Riverstone Holdings, is a sceptic on the value of integrated reporting. He says: “I am wary of gimmicks. Stakeholders ultimately care about results, not processes, and so integrated reporting shouldn’t distract from the core task of sustainability, which is to act in line with the interests of society. No glossy report, press conference or CEO speech can substitute for action.”

‘It’s in our interests to drive our supply chain to wholly sustainable sourcing as soon as we are able’

tribute capital, jobs, skills, ideas and taxes. These need to be recognised as part of business’s contribution to society, and are a key aspect of sustainability.

He says companies need to know their stakeholders. This means more than having a cup of tea with some NGO heads – it means understanding governments, NGOs and other external interests with the same rigour that you would understand your customers. Finally, effective communications requires companies to engage radically, he adds. “Communication must be treated not as a propaganda exercise, but as a negotiation with intelligent and often powerful parties,” he says.

Unilever’s Huët says the role of communication is to champion the cause externally. He says: “It will be a great achievement if Unilever manages to hit all the 60 or so targets it has laid out in the Unilever Sustainable Living Plan, but even if it does, it will still have failed if it hasn’t persuaded and inspired others to adopt a similar sustainable, equitable growth model.”

Lawrie Holmes is the editor of Financial Management



Trading places

Trade finance, where backers agree to buy up a commodity while it is in transit, is getting a new lease of life – as finance directors look for alternatives to traditional forms of lending, says Alex Hawkes

Britain's disillusion with banking grows by the day. As crisis follows crisis, and the banks pull in their horns to deal with piles of bad debt, beaten-up SMEs complain bitterly of a lack of lending and mis-selling of complex financing arrangements.

But, in the midst of the gloom, an opportunity could be emerging. The old-fashioned art of trade financing, along with other forms of alternative finance for businesses, is beginning to flourish again.

Banks are being spurred by regulation towards more tightly-drawn types of finance, including trade finance. New entrants, meanwhile, are hoping to fill the broader gaps left by the banks in financing SMEs that cannot get overdrafts on the terms that they used to. And the broader need to rein in working capital as the downturn bites is opening up further opportunities for innovative financing.

Finance partners

Trade finance is by no means a new concept. William Tebbit, commercial director of Trade Finance Partners (TFP), describes it simply as "old-fashioned merchant banking".

The principle is simple – a customer has an agreed order from a big company, but for whatever reason cannot pay a deposit for the raw materials required.

This is where the trade financier steps in, taking on the financial risk of buying the raw materials with the agreed order as its security.

It is, in one sense, merely greasing the wheels of world trade. But it is also proving to be increasingly popular.

"There's a real squeeze on SMEs. Banks simply aren't lending to small businesses," says Tebbit.

Without overdrafts and bank loans provided in the usual way, trade finance can step into the breach. TFP started providing finance in earnest last year and made a profit in its first year of trading.

It turned over £12.3m in the year ending March 2012, recording a pre-tax profit of £103,825.

It is aiming at the SME market. Backed by alternative fund management company The City of London Group and by Australian bank Macquarie, Tebbit and his colleagues aim to finance deals where the solvency of the end customer is not in any doubt.

"One of our clients is a clothing manufacturer. He had a large order to fulfil from Argos [a catalogue and online retailer] for a new range of baby clothes, but was unable to pay deposits or to open letters of credit.

"So we placed the orders with the factories, issuing a letter of credit to guarantee that they will get paid," Tebbit says, describing a typical deal.

"There's a real squeeze on SMEs. Banks simply aren't lending to small businesses"

TFP has put up cash for trades involving pizza boxes for Pizza Hut, car batteries and recycling equipment. It makes its money on a mark-up – buying the goods from the supplier for £100, say, and selling them to its customer for £106.

Tebbit also says that while TFP recorded sales of £12m last year, "it is running a lot hotter this year".

Others agree that they are seeing a resurgence of interest in trade finance, but not always for the same reasons.

Maurice Craft, ex-chair of the Asset Backed Financing Association and managing director of Regency Factors, another trade finance provider, pinpoints new regulation as a key driver: "The banks, since the imposition of the Basel capital rules, have found that provision of overdraft facilities, traditionally the lifeblood for business, has become 'expensive' in capital adequacy terms, and have thus tried to steer their facilities offered to less 'expensive' products, such as invoice finance and leasing for capital equipment."

John Bevan, Barclays head of trade and working capital for the UK and Ireland, agrees that the regulatory changes have driven banks towards trade finance: "From a bank's perspective, trade products are structured. Therefore, they are much more efficient from a capital perspective. We can provide more [of them] and at a better price."

He also highlights a broader perspective – that international trade trends are driving greater interest in trade finance.

"There has been a consolidation of supply chains over the past 12 to 18 months, particularly among SMEs, but also among larger corporates. Suppliers now come from further afield than previously."

Because suppliers are often further away, trade finance can provide some kind of security.

He adds that it is working the other way too. Barclays will also finance trades in the opposite direction, another market that is growing.

"On the export side, demand for UK products from more traditional markets, in the eurozone for instance, has declined. We are starting to see demand emerging from the BRIC economies," says Bevan.

As supply chains lengthen, companies reach for trade finance as a way of getting both protection and certainty of payment.

But, on a more basic level it is just another way of managing working capital, limiting the amount of cash being used to run the business at any one time.

Robert Smid, a partner at PwC, tends to advise on bigger deals – helping companies to securitise a whole range of invoices rather than just getting finance for one trade. But many of the principles are the same.

Quite apart from security and other reasons, getting finance for a deal can work out cheaper than ►

Economics

other more long-term forms of financing in some circumstances, he says.

“The overall indicator of what is cheaper is who has the better credit rating, you or the customer?” Smid says.

If you are selling to a big retailer that is good at paying its bills, then the finance company will be comfortable financing the trade and offering decent terms.

‘There’s a lot of myths around trade finance. It’s effectively just part of the working capital cycle of many businesses’

Smid says that was the reason why companies used to securitise their invoices – because their client was BT, or rather the state.

Suppliers could get money up front from the bank because it knew that the invoices were underpinned by the state’s credit rating.

‘The overall indicator of what is cheaper is who has the better credit rating, you or the customer?’



TFP in practice

Eric Bain is finance and operations director at Atlantic Enterprises, a UK packaging group, and has been using Trade Finance Partners (TFP) since December last year.

TFP helps Atlantic to finance its purchase of food packaging for a major UK restaurant chain. The whole process takes a month, and Atlantic would normally get paid six weeks later.

“On that basis we would be waiting ten weeks for our money,” Bain says.

As well as avoiding the upfront costs of doing business, his Turkish supplier is “even more happy”, he says, because it gets cash up front.

“TFP pay cash on day one of receipt of goods. As a result I was able to negotiate a significant discount that covers any costs charged by TFP.”

Bain thinks trade finance has a significant advantage over invoice discounting and factoring, because Atlantic only ever sees its profits, and has no cash in its bank accounts that needs to be used to buy more raw materials.

Factoring and invoice discounting “gets you money quicker. But it doesn’t help manage cash flow. In tough times all companies use their cash flow, whether or not it’s their profit. They are teetering on the edge of insolvency. If you can trade on your margins rather than your cash flow, you won’t get into trouble”.

Bain used to work in property during the boom, when banks were lining up to lend: “This service wouldn’t have been relevant then.”

He adds that it is not for everyone – if you are selling to small companies or to consumers it won’t be much use, since TFP prefers to lend against secured orders from companies with excellent credit ratings.

Bain says that using trade finance will also enable Atlantic to bid for a much bigger contract coming up, which would otherwise have required £300,000 worth of working capital.

One thing that is very popular at the moment, Smid says, is “reverse factoring”. This is the practice of arranging for a bank to pay your suppliers for you quicker than you would pay them.

“If I have a better credit rating than my supplier I can use that to help them get paid earlier. Some small suppliers can’t afford to wait 60 days to get paid. If I give a promise that I will pay the invoice in 60 days, an intermediary will pay them in 10 days. The supplier gets 99.5 per cent, but gets it 50 days earlier. And they would never be able to get that kind of financing.”

Bigger companies can gain an advantage by using those techniques too – offering them while at the same time pushing out their own payment terms and helping their own working capital.

With companies having 20 to 30 per cent of their sales at any one time tied up in working capital, there are plenty who are looking at ways to reduce those figures, and to make them ultimately less reliant on any forms of financing.

Bevan agrees that ultimately the use of trade finance comes down to a working capital requirement.

“There’s a lot of myths around trade finance. It’s effectively just part of the working capital cycle of many businesses. Many people are not looking for a specific product, but want an end-to-end working capital strategy.”

Tebbit warns that the hotter market is bringing in some new and inexperienced players.

The oil and commodities trade finance tends to be done by the big banks, while Bibby is another big player, he says.

“We are seeing there are a few private individuals who think there’s an opportunity to provide finance to SMEs – a lot of people who don’t quite know how to do it.”

Hedge funds have been coming in too, he says.

“For some of the smaller businesses it’s quite dangerous.”

Craft agrees that it is a complicated area.

“Funding the purchase of goods or raw materials on behalf of an importing client needs to be structured in a way that will satisfy all parties to the transaction. The supplier has to be assured of being paid for the goods they supply, the client needs to be confident that the arrangement doesn’t spoil the relationship with the supplier, while we as financiers have to satisfy ourselves that we are secure at all stages of the transaction.

“The facilities are not the usual vanilla offering and they require tailoring to the individual needs of the client. The degree of skill required has limited the providers of the product thus far and its use is not as prevalent as it could be. Given time, it may well become as mainstream as factoring or invoice discounting.”

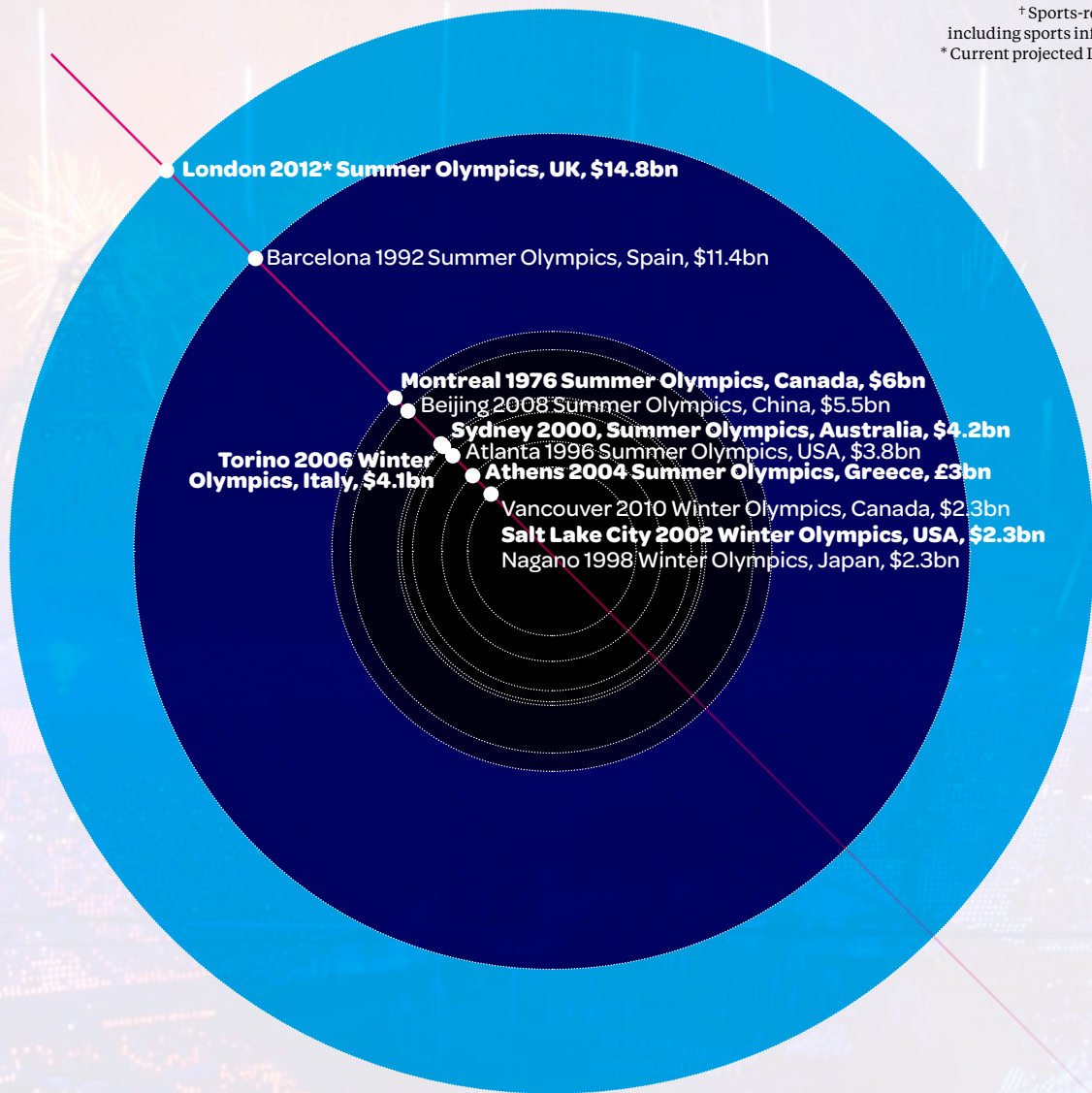
Alex Hawkes is a leading financial journalist who writes for several UK newspapers.

Prime number

Top ten final actual costs, Olympics 1960-2012, USD2009[†]

[†] Sports-related costs, including sports infrastructure

* Current projected London 2012 cost is used



The cost of the Olympics

The chart reveals that the cost of the Games historically has varied considerably. The Olympics simply has not got more expensive with time. Although London 2012 is projected to be the most expensive in history, the next most expensive was Barcelona 1992, with all Games in between those dates coming in cheaper. Perhaps the most striking increase is the cost of London 2012 compared with Beijing 2008 – from \$5.5bn to a projected \$14.8bn.



The \$11.4bn cost of the 1992 Barcelona Olympics was the result of an overspend in real terms of

417%



The 2006 Torino Winter Olympics were the most expensive Winter Games in history, overrunning by

82%

The list



ways to...

Illustrations
by Borja Bonaque

...fight the fraudsters?

Forget about high-profile cases, most finance directors are most worried about the low-level fraud that affects their organisation. Peter Bartram considers eight ways to combat this threat...

1

Provide leadership from the top

“Setting an anti-fraud policy and leading by example improves attitudes towards fraudulent activities and sends out a message that it will not be tolerated,” says Kellie Edwards, head of forensic practice at Salamanca Risk Management, a security and operational risk firm.

“Board members need to be encouraged to speak to all related parties, including staff, customers and suppliers at all levels,” she says. “Board members need to come down from their ivory tower and feel the earth beneath their toes – even if it is just to check that it’s not quicksand.”

2 Identify the key risks

Many organisations don't even consider fraud to be a key risk, argues Alex Plavsic, head of KPMG Forensic UK. "This is often a combination of the poor capture of fraud within an organisation – hidden in losses such as stock write-offs, claimant errors or budget over-runs, and a lack of awareness of the organisation's fraud risks and how they would manifest themselves. Properly capturing and reporting fraud often pushes it up the agenda at organisations. One practical way of identifying whether it's under-reported is to benchmark reported fraud against the experiences of comparable organisations."

3 Promote an anti-fraud culture

"A strong tone from the top lets employees know that the executives, the board and management have faith in, and rely on, the compliance programme for ferreting out fraud and abuse," says Tracey Stretton, legal consultant and e-disclosure expert at Kroll Ontrack Legal Technologies.

"A company must also invest time and resources in its staff," adds Mike Wright, partner at BTG Global Risk Partners. "Initiatives, such as employee share schemes and team performance rewards, can help to support a greater sense of shared responsibility that will not only discourage internal fraud, but also encourage employees to identify external fraud."

4 Develop effective anti-fraud controls

"When organisations fall victim to supplier fraud it's often because when processes fail, there is insufficient awareness of the fraud among staff to make them query the payments," says Plavsic.

"For example, the second signature needed to change the bank account details from the genuine supplier to the fraudster is just a tick-box exercise that doesn't include any scrutiny. Or the

telephone confirmation is carried out using the phone number supplied by the fraudster, rather than the one held on file for the supplier. A targeted awareness campaign by the organisation about this type of fraud, and what to watch out for, can be more effective than the addition of yet another process."

5 Encourage and nurture whistle-blowers

Middlesex University's professor David Lewis, convenor of the International Whistleblowing Research Network, says: "Whistle-blowing arrangements should be introduced following consultation with trade unions. The contents of a policy and procedure should include the principles upon which it is based – who can invoke it, the types of wrongdoing that should be reported and the amount of evidence needed by a discloser."

Lewis's tips for an effective whistle-blowing policy are: concerns should be raised through the line management structure, but alternative mechanisms should be made available. As far as possible, people who ask for it should have their identity kept confidential. Staff should have access to free confidential advice.

Allegations need to be screened so that investigations are only conducted in appropriate cases. Feedback should be provided to disclosers in order to demonstrate that concerns are being taken seriously. All staff need training in the whistle-blowing arrangements.

6 Develop a response plan

"The best time to plan is before a fraud occurs, not afterwards," says Will Kenyon, partner in PwC's forensics practice. "Be clear about your ultimate objectives, which may vary from one situation to another. Who needs to do what? Who should be involved in an investigation (and who shouldn't)? Early steps need to secure evidence, reporting lines and PR strategy."

Kenyon warns: "The occurrence of fraud may be out of your control, but the way you respond is within your control and you will be judged on it."

7 Harness technology to fight fraud

High-performance analytics is one of the biggest counter-fraud weapons since the advent of social network analysis, says Michael Rhodes, senior fraud consultant for SAS UK and Ireland.

"The ability to analyse vast quantities of data in a relatively short space of time, or even real time, gives insight into customer or employee behaviours that may be indicative of fraud," says Rhodes. "The content of emails, social media postings and voice data can be analysed using high-performance analytics in a way not previously possible because of the sheer processing power that is required."

8 Develop good internal controls

Aim to have 100 per cent of invoices linked to purchase orders, advises Adam Simon, global managing director of business development at PRGX, a business analytics and information services firm. "Moving from paperwork to electronic platforms makes it easier to monitor workflow and track invoices through the system," he says.

Companies can fight expenses fiddles – another common fraud – by adopting automated processes.

"For example, linking the employee expense management system directly with the travel agent or flight booking system, or even having the company credit card statement automatically loaded into the expenses form, will provide the transparency required to remove the chances of employees upgrading without authorisation," says Gary Waylett, chief executive of Eclipse Group, which provides business management systems.

When it comes to fraud, there is change in the air, says Waylett. "In the wake of high-profile employee fraud cases, is it really worth the risk of sitting back and hoping for the best?"

Peter Bartram is the author of The Perfect Project Manager (Random House Business Books)

Study Notes

Paper T4 part B

Case Study p41

Paper E2

Enterprise Management p44

All papers Time management

Previous articles on time management have tended to focus on exam technique, but it's equally important to make the most of this precious and limited resource during your studies, too

By Jackie Durham
CIMA education and training consultant

Reflecting on what you do and don't do can be particularly illuminating when it comes to working out where your time goes. It's the same for your studies. By thinking about how you study and identifying your strengths, preferences and limitations, you can start planning to address these and hone those all-important study skills.

To get started, try a little questionnaire. Thinking about how you normally approach your studies, answer the questions in the table below.

If you answered mostly As, you should have few problems. You're well motivated and are focused on success. You have probably developed strategies to help get you through any sticky times.

If you came up with more Bs than anything else, you're on the right track and almost certainly know what you should be doing, but you may find it hard to maintain your focus or stay motivated when there are competing priorities and distractions. You'll need to work on finding ways to help you prioritise the demands on your time. You would benefit from really thinking through your responses to each of the questions and trying to identify your strengths and weaknesses.

If you gave mostly Cs, you may be struggling to study effectively. There may be several reasons for this, but you need to create the right environment or find something that really motivates you – the fear of failure may be holding you back, for instance. The first step is to be honest with yourself. Revisit the questions and try to identify the main problems. Build on any strengths – e.g. you may be good at retaining facts – and see what you can do to address your limitations – e.g. work out a study plan and stick to it. A CIMA plan to get you started can be found at bit.ly/CIMAstudyplanner.

For further articles on getting the most from your study time, visit bit.ly/CIMAstudyprefs.

STUDY QUESTIONNAIRE

- | | | |
|---|--|---|
| <ul style="list-style-type: none"> ● I plan what I'm going to study and where.
A. Usually.
B. Sometimes.
C. Rarely. ● I set myself clear study goals.
A. Always.
B. I try to.
C. Rarely. ● I meet my deadlines for assignments.
A. Always.
B. Sometimes.
C. Rarely. | <ul style="list-style-type: none"> ● I am able to concentrate when reading.
A. Usually.
B. If the environment is right.
C. Rarely. ● I am a fast reader.
A. Yes.
B. I could be quicker.
C. I never seem to be able to get through all of the written materials in time. ● I have a good memory for facts.
A. Yes.
B. Sometimes.
C. I always seem to struggle to remember the relevant facts. | <ul style="list-style-type: none"> ● I can motivate myself to study.
A. Usually.
B. Sometimes.
C. Rarely. ● If I have a clear goal, I can overcome my doubts and dislikes.
A. Most of the time.
B. Some of the time.
C. I find it hard to overcome these barriers. ● I cope with the pressure by focusing on my future success.
A. Always.
B. Most of the time.
C. I find it hard to believe that I will succeed. |
|---|--|---|

Paper T4

part B

Case Study

To maximise your marks under the logic criterion, the recommendations that you make in your report should be fully justified, commercially sensible and based on an accurate financial analysis

By the case writer for paper T4 part B

Recommendations are a crucial part of any business report. A report that fails to make sensible (or indeed any) recommendations would carry little value to the reader. The recommendations that you make when answering the T4 part B Case Study should be the culmination of all of your financial evaluations, as well as your analysis of each issue. If your supporting calculations are seriously flawed, you run the risk of making the wrong recommendations.

The main reasons why candidates score low marks on the logic criterion are as follows:

- Managing time poorly, which results in rushed or incomplete recommendations.
- Making recommendations that are not realistic or commercially sensible.
- Making vague recommendations that are not decisive. These should not state merely that “the board should do something about this problem” or “more controls are needed”, for instance.
- Recommending that a consultant should be appointed – *you’re* the one who’s being asked for guidance.
- Stating that “more information or research is required before a decision can be made”. You have been presented with sufficient data in the unseen material and you should form a clear view based on this information.
- Making poorly justified recommendations. You must state a persuasive case to explain to the marker why you’ve suggested a course of action. If you’re confused about the reason for your recommendation or you can’t explain clearly why you are making it, how can you expect the marker to understand your decision?
- Failing to recommend sensible actions to achieve the desired outcome.

With all this in mind, T4 part B candidates need to take the following five steps to maximise their marks on the logic criterion:



Getty Images

‘The examiner is looking for ideas that would not harm the business. This sounds obvious, but candidates have, in the past, suggested unrealistic and potentially damaging actions’

1. Allow adequate time to prepare detailed recommendations on four issues. You should give yourself around 40 minutes in total, comprising about 12 minutes for each of the most important two issues and only eight minutes each for the two lower-priority issues. The top two issues will generally carry more marks, although this may not always apply in every case.
2. Provide clear, decisive and well-justified recommendations for all of the issues covered in the report. For each issue, your recommendations should cover the “what, why and how” as follows:
 - Explain clearly what you’re recommending.
 - Justify why you are suggesting this course of action, backing this with your financial analysis.
 - State what actions should be taken, who should take them and when they should do so.
3. Ensure that the advice you give is commercially sensible. The examiner is looking for ideas that would not harm the business. This sounds obvious, but candidates have, in the past, suggested unrealistic and potentially damaging actions.
4. Ensure that each recommendation covers all aspects of the issue concerned, as there are often several problems to address.
5. Offer financially sound recommendations, justifying these with your calculations and analysis.

Let’s now review the cash flow issue from the May 2012 Case Study on the hypothetical Jot toy company. You do not need to read the entire ►

Paper T4 part B

Case Study

paper to understand what's expected. The unseen material provided forecast sales revenues, manufacturing costs and other outgoings. It also gave details of the forecast cash balance at the end of June 2012 and the forecast timing of receipts and payments. This required a cash flow forecast to be produced. The correctly prepared calculations would have shown a closing cash balance at the end of December 2012 of –€2,230,000. This is greater than Jot's maximum overdraft limit of €1,500,000.

A correctly prepared cash flow statement would have suggested immediately that a drastic solution was required. Otherwise, Jot could go into administration and cease trading. Therefore, the recommendation on this crucial issue should have recognised the need for clear and urgent action to improve cash flow.

The unseen case material also gave details of three alternative courses of action, starting from September 2012. These were: to offer customers discounts for early payments; to ask them for a part-payment on placing an order; or to use a debt factor. This is where a factoring company gives an immediate cash advance when invoices are raised, less the factoring fee, which in this case was three per cent.

Further accurate calculations would have shown the following facts:

- A forecast cash balance at the end of December 2012 of €2,230,000 overdrawn – i.e. €730,000 in excess of the agreed overdraft limit.
- A forecast cash balance at the end of December 2012 of €1,423,000 overdrawn if discounts were offered – 25 per cent of customers chose this option and paid up within 30 days. This would keep Jot just inside its overdraft limit, but the approach would be risky if some of these customers ended up not paying in the agreed 30 days.
- A forecast cash balance of €2,563,000 – i.e. no overdraft at all – under the factoring option.

Some candidates' recommendations on this crucial issue concerning cash flow – and indeed the very survival of the company – were poor and earned low marks. A number of them had failed to perform accurate cash flow calculations and so hadn't realised the severity of the problem.

The following were examples of poor and/or dangerous recommendations:

- "Closely monitor cash flow." Monitoring will not help to manage the situation. This was not a commercially sensible recommendation.

'A correctly prepared cash flow statement would have suggested immediately that a drastic solution was required'

- "Prepare weekly cash flow forecasts so that any possible breach of the overdraft facility is spotted." Again, this would not help Jot, as the bank could withdraw the overdraft facility immediately once the limit was breached and the company could be forced into bankruptcy.

- "Ask customers to make part-payments when placing orders." This was not commercially sensible, as 68 per cent of Jot's sales were made to seven big commercial customers. These large companies wouldn't make a part-payment before the goods were delivered (let alone before Jot even arranged for the goods to be made) and most would already have placed their orders for 2012. Furthermore, this request for part-payment would alert the customers that Jot was in financial difficulties, which could prompt them to delay payments.

- Those candidates whose cash flow calculations were incorrect and showed that Jot's cash balance at the end of December 2012 would be within the overdraft limit didn't recognise the need for action on the issue, so whatever they recommended would have been inappropriate at best.

The suggested answer is as follows:

- **Recommendation.** Debt factoring should be used to tackle Jot's short-term cash flow problem.

- **Justification.** Extra short-term finance is needed, as Jot is on course to exceed its overdraft limit by €730,000 before 2013. The bank wouldn't let this happen, which would put Jot at risk of bankruptcy at worst, or render it unable to pay its outsourced manufacturers. Jot needs to find more short-term finance and factoring is the most suitable method. Offering customers a discount for paying within 30 days is too risky, while it's unlikely that Jot's seven large customers would accept this anyway. Asking customers to pay a deposit when placing an order is commercially unrealistic and could reduce their confidence in Jot. This might result in a loss of orders and long-term damage to the brand's reputation.

- **Actions to be taken.** There are many debt factoring firms to choose from. Jot should meet a few before deciding which one to work with. Once a company has been appointed, FD Tani Grun should write to tell all customers about the change. In future, Jot should secure extra long-term finance, either by listing on a stock exchange such as AIM within five years, or by finding an external investor willing to take an equity stake.

Paper E2

Enterprise Management

Before you start tackling complex E2 project scenarios, it may help you to commit the terms and processes of project management to memory by applying them to a setting closer to home

By Jenny Hughes

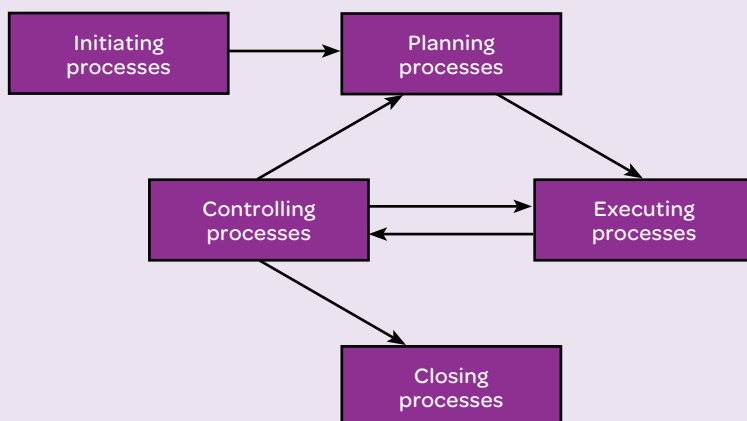
E2 tutor, London School of Business & Finance

Projects usually follow a life cycle comprising separate stages that occur in sequence. There are numerous models that detail these (*see diagram, below*), but, whichever model you follow, it's important to understand what happens at each stage. This article – the first in a two-part series – focuses on the following stages of a project entitled “building the house of your dreams”:

- Initiation (including feasibility)
- Planning
- Execution
- Monitoring and control
- Completion.

The process of building a house starts long before the foundations are laid. To avoid costly mistakes during the construction you will need to find answers to specific questions in order to decide whether it's feasible to proceed. You will have to consider how much your new property is likely to cost. The chances are that you will need

The traditional stages of a project



both a construction loan and a mortgage to fund the project. Knowing the approximate costs at this stage will help you to modify your building plans to meet the budget.

Next you might need to consider the location. Whether you're choosing to build your home in a suburban development or on a site with sweeping ocean views, you will need to choose a plot and investigate factors such as soil conditions, drainage and building costs in the area. Having a good idea of your preferred architectural style will determine the size and characteristics of the building site.

As you can see, a number of questions need to be asked before any commitment to proceed is made, all of which are part of the first stage of project management: initiation. You are undertaking a feasibility study, aiming to objectively and rationally uncover the strengths and weaknesses of the proposed venture; opportunities and threats presented by the environment; the resources required to carry the project through; and, ultimately, its prospects of success. Feasibility is a term used to determine how achievable various project options are. Such studies are normally conducted on a number of potential strategies. The aim is to decide which to choose. Each study will generate a feasibility report dealing with the evaluation criteria, analysing the findings and making recommendations. Any risks to the project will also be assessed at this point.

Once you have decided that you still want to go ahead and build the house of your dreams, the next task is to compile a project initiation document (also known as a project charter). Its purpose is to define the mission, scope and “deliverables” – the project management term for the products and/or services that will be produced – along with the roles and responsibilities of all the stakeholders. This will provide the overriding terms of reference for the life of the project.

The next stage is planning, which is the arrangement of activities to achieve the project's aims. This means determining exactly which tasks have to be undertaken. The project plan articulates:

- What needs to be done (don't forget the swimming pool).
- How this is to be achieved – and when.
- By whom (an architect would be useful, as well as visionary interior designers and good builders). ▶

Paper E2

Enterprise Management

This plan is a benchmark against which the results can be compared and monitored. Planning is a vital part of any project. It's important to make a "road map" that shows clearly how the tasks will be accomplished within budget and to schedule.

The detailed planning starts with the development of a work breakdown structure. Here, the project is split into components until there are manageable units of work that don't need to be subdivided any further. Once the basic structure is complete, numbers are added to each of the various elements to indicate the percentage of the total work they represent. These should add up to 100 per cent, which equates to the work for the whole project (*see diagram, below*).

A statement of work (or work package) is then compiled for each component in the work breakdown structure. A statement of work for the building of the walls will include:

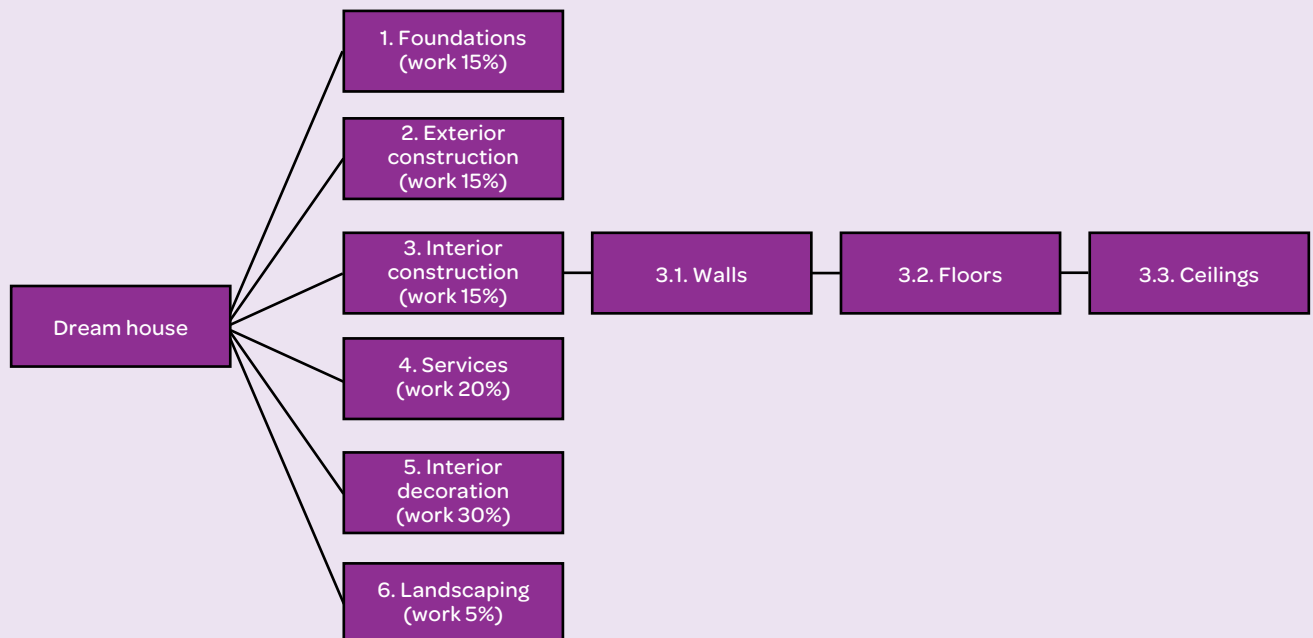
- A detailed description of the work.
- Where this is to be undertaken.
- The completion date.
- The standards required.
- Who is responsible for the work.

A product breakdown structure should also be completed. This will include all of the resources required to complete the building of the walls. Costs can be attached to each resource so that a detailed budget can also be completed. Building the walls will require the following resources:

- Labour.
- Bricks.
- Cement.
- Sand.
- Trowels.
- Spirit levels.
- Buckets.

In order to calculate the minimum overall completion time for the house of your dreams, a critical path analysis should be produced. This will show all of the activities (from the work breakdown structure) that must be performed in order to complete the house, the sequence in which they need to take place and budgeted times for each activity. Monitoring the project's progress against the critical path analysis regularly will give you valuable information to help you ensure that the project is completed on time. In the planning stage

A work breakdown structure

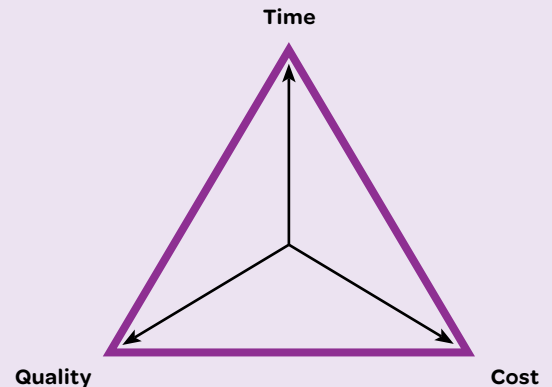


you should draw up a number of separate detailed plans for everything that needs to be managed on the project.

Once you have completed a detailed plan for everything you'll need to help you in the control stage when building the house, you can start the construction. You will need to decide whether to manage the project yourself or hire a project manager. You'll have to consider whether you have enough time and the right skills to do this job effectively. You are now at the execution stage of the project. This stage is linked closely with the monitoring and control stage because, once the construction process has started, the project manager will need to monitor and control its progress towards completion.

The successful completion of the project's objective is usually constrained by three factors: time, cost and quality. Once the project is under way the time-cost-quality triangle is a useful concept to keep in mind throughout the construction (*see diagram, right*). The triangle works on the principle that as more emphasis is placed on one element, less is placed on the others and it's hard

The time-cost-quality triangle



to balance all three. The time constraint refers to the number of days available to complete the project. The cost constraint refers to the funds or resources available for the project. The quality constraint refers to what needs to be done to produce the end result – in this case, the house of your dreams. These three factors are often

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Paper E2

Enterprise Management



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competing constraints. Increasing the quality of the construction typically means increasing the time taken and the cost incurred; tightening the time constraint could entail increasing the cost and reducing the quality; and tightening the budget could mean increasing the time taken and reducing the quality. So, with the house of your dreams you might need to consider whether you:

- Design and build the home quickly and to a high standard – it will not be cheap.
- Design and build the home quickly and cheaply – it will not be of high quality.
- Design and build the home cheaply and to a high standard – it will take a long time.

Throughout the execution stage, actual project data will need to be collected and this will need to be compared against the project plan as part of the monitoring and control process. If a deviation from the plan is discovered – e.g. if more money is being spent or the project is taking longer than anticipated – then corrective action will need to be taken. Project decisions on the

‘Reducing excess expenditure may mean using fewer or lower-quality resources, which could affect the overall scope of the house of your dreams’

actions to implement in order to bring the project back on track will often require a trade-off in cost, time and quality. For example, getting the construction back on schedule may require extra resources and therefore incur additional costs, or you may need to compromise on the original scope. Reducing excess expenditure may mean using fewer or lower-quality resources, which could affect the overall scope of the house of your dreams.

When the building has been completed, an evaluation and review should be conducted to assess how well the project was managed and the extent to which deadlines were met, quality standards were maintained and budgets were adhered to. Lessons learned from the review can be used to improve the building of the next house of your dreams. This final stage is referred to as project completion, or closure.

The next article in this series will offer guidance on how best to approach project management questions in the E2 exam.

Exam notice

Visit www.cimaglobal.com regularly for updates

November 2012 main exams

This sitting will be held on 20, 21 and 22 November. Online entry for the exams opened in early August – enter by logging into your “My CIMA” account.

The standard deadline for entries is 5pm BST on 14 September. If you enter after this date, you will have to pay an additional fee. The deadline for late entries is 5pm BST on 21 September.

Exam fees

You must pay your November exam fees online when you submit your entries. The fees are as follows:

- Operational and Management levels: £79 per paper.
- Strategic level: £85 per paper.
- T4 part B on paper: £107.
- T4 part B on PC: £149.
- Extra fee for late entries: £199.

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CIMA does not accept cancellations and will not refund fees. To change papers or exam centres, email exam.changes@cimaglobal.com.

Visit www.cimaglobal.com/students/exams for further information.

Pre-seen material for papers at Strategic level and T4 part B

The pre-seen material for the September and November T4 part B Case Study exams is available to be downloaded from www.cimaglobal.com/t4preseen.

The pre-seen material for September's E3, F3 and P3 papers is available to be downloaded from www.cimaglobal.com/strategicpreseen. New material for November's Strategic level papers will be made available in mid-October.

It is your responsibility to download the pre-seen material for these papers and familiarise yourself with it. A “clean” copy of the pre-seen material and further unseen material will be provided in the exam. You cannot take any notes with you into the exam hall.

Tax rules for paper F1

Information on relevant tax rules for the Financial Operations paper is published on CIMA's website at least six weeks before the exam and will be reproduced on the question paper.

September 2012 ‘extra’ exams

The exams were held from 28 August to 1 September. The results will be sent out by second-class post or airmail on 20 September. They will also be emailed after 13 September to those students who registered via their “My CIMA” accounts to receive theirs online.

The institute cannot give out results on the telephone or to personal callers at any CIMA office.

Any student who sat a September “extra” exam and wants to take November paper-based exams will have from 20 to 26 September only to enter for these via their “My CIMA” accounts. The usual late-entry fee will not be charged.

September question papers and model answers

Past question papers and model answers are available to download free from the relevant “Study resources” pages of the CIMA website at www.cimaglobal.com/students/2010-professional-qualification.

For more model answers, check past issues of *Velocity*, the e-magazine for students (www.cimaglobal.com/velocity).

Post-exam guides

Post-exam guides for each of the September papers will be made available on CIMA's website in October. These are essential reading for unsuccessful candidates and those studying a new subject. They contain:

- The exam questions.
- The rationale for each question.
- Suggested approaches to answering each question.
- The outline marking scheme.
- The examiners' comments.

Script and administrative review services

After the September exam results are published CIMA will offer a script review service for the three Strategic level papers and T4 part B. The service is available only if you received between 40 and 49 marks (between 20 and 24 credits in T4 part B) in the paper for which you want a review.

An administrative review service is available for all Operational, Management and Strategic level papers.

The application deadline for script and administrative reviews for the September exams is 19 October.

Further information about these services and how to apply for them can be found in the “After the exams” section at www.cimaglobal.com/students/exams.

Computer-based assessments at Certificate level

For details on entering for a computer-based assessment at Certificate level, visit www.cimaglobal.com/certificateentry.

If you wish to sit Operational or Management level exams in November, you must have completed all of your Certificate level subjects by 12 September.

New guidance notes for each of the 2011 syllabus subjects are available online. CIMA has also compiled answers to some FAQs on the 2011 Certificate syllabus. Visit www.cimaglobal.com/2011certificate to access these resources.

CIMAsphere

Visit www.cimaglobal.com/sphere, CIMA's online community, to ask questions, share information and find expertise and support among CIMA students, members and alumni. You can also read useful blogs on studying and the exams.

Queries

Visit www.cimaglobal.com/students/exams or get in touch with CIMA Contact (cima.contact@cimaglobal.com) or your local office (see panel, page 47).

Code of ethics CIMA members and students are required to comply with the CIMA code of ethics.

Ensure that you are familiar with the code and how to apply it.

Further resources are available at www.cimaglobal.com/ethics. Also see this month's hot potato, page 12.

Technical Notes

Working in the charity sector

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The Bribery Act – one year on

Organisations have now had 12 months to get to grips with the UK Bribery Act. What's clear is that having adequate procedures in place to prevent bribery is the best defence mechanism

by Anthony Harrington

We are now one year into the operation of the UK Bribery Act and it has become clear to all, or should have become clear, is that reasonable hospitality is not what the Act legislates against. The aim is not to stop companies building relationships with clients by taking them to Wimbledon, Lord's or Twickenham. What should also be clear is that companies cannot escape the Act simply because an agent in some distant Middle Eastern or African or Latin American country continues business as usual and greases the palms of everyone he or she deals with. What agents do for you comes to rest at your door, as far as the Act is concerned, and bribery is a criminal as well as a commercial offence. Prison or swingeing fines, and the disgorging and clawing back of profits, await transgressors.

Offences under the Act, as Jonathan Middup, partner and head of anti-bribery and corruption

for Ernst & Young in the UK explains, are not mitigated by pointing to the fact that in some countries bribery is simply an accepted way of getting business done. "The underlying view of the Act is that the more Western companies play the bribery game, the harder it is to eradicate it. There needs to be zero tolerance of bribery and this is what the Act sets out to achieve," he says.

A handful of large multinationals have already taken a firm stand against it and have said that they are not going to pay bribes, no matter what. They are finding, Middup says, that officials and others in the countries concerned learn that company X or company Y cannot be "taken" and, after some resistance, the demands vanish and business gets done anyway. That is the kind of success that the Act is striving to achieve, so from the point of view of the authorities every infringement sets back the process, and those companies caught turning a blind eye to the practice among agents, or among their rank and file employees, can expect to be made an example of.

Peter Maher, a partner in the forensic department at Deloitte, also emphasises that this is a criminal statute, not a regulation, and that directors would do well to keep that in mind. We have not yet seen the degree of enforcement activity under the Act that was expected when it came into force, but we are still very early in the game, he says. In particular, companies need to grasp the fact that the UK Bribery Act has subtle differences from the US Foreign Corrupt Practices Act, which came into force in 1977. In particular, the FCPA allows "facilitation payments", which are payments made to, for example, facilitate the

"The underlying view of the Act is that the more Western companies play the bribery game, the harder it is to eradicate it"

movement of goods from the dockside of a foreign port. Under the UK Act anything that is not a recognised fee or disbursement is out, and that goes for facilitation payments too, which the Act regards as simply bribery under a different guise.

Maher points out that prosecutions were also slow to start under the FCPA. “When I left the US in 1992 there had been very few actions brought, then it simply exploded from 2003 onwards, so we could see a similar pattern in the UK,” he says. On hospitality, Maher and others recommend applying the “*Evening Standard* test”. Would you be uncomfortable, as a board, reading about the hospitality you are providing on the front page of the *Evening Standard*? “Talking to the Serious Fraud Office (SFO), it is clear that it is not their intention to restrict hospitality. They are going after out and out bribery,” he says.

It is also important to realise that there is a lower hurdle in the Act where public officials rather than private companies are the recipients or alleged recipients of bribes. “There is a public interest dimension to this. In emerging markets the bribery of government officials tends to involve diverting

‘I get surprised reactions from clients when they discover that they can be liable for people doing business on their behalf’

funds from public coffers to the individual’s private bank account, so you have an impoverished population being deprived of funds,” he says.

Companies need to take particular care to carry out proper due diligence when engaging in M&A activity in markets that are high risk as far as bribery is concerned. They will certainly want to inquire deeply into the processes the target company has in place to prevent bribery.

Catriona Munro, partner, EU competition and regulatory services at lawyers Maclay, Murray & Spens, says that her team is fielding a constant stream of enquiries from clients who, one year in, are still coming to terms with the processes they need to put in place to fulfil the requirements of the Bribery Act. Boards may well think that their

business is not at much risk, but when they look more closely at matters, for example, at the agency issue where they have traditionally operated very much on trust, they get a fright, she says. “I still get surprised reactions from clients when they discover that they can be liable for people doing business on their behalf, but that is the way this law was designed to work,” she says.

One crumb of comfort for companies is that under the Bribery Act, having adequate procedures in place to prevent bribery is a complete defence, whereas under Competition Law having adequate procedures simply mitigates the punitive fines that can be handed out. Munro points out that one of the shortcomings of the present UK law is that there is no guarantee that self-reporting





an offence will prevent the SFO from prosecuting the company, which is a major disincentive to self-reporting. However, there is a general expectation that the SFO will be reasonable and they have privately indicated as much to practitioners.

“What we are emphasising to clients is that your defence has to go beyond paper procedures. It has to involve a real effort to push anti-bribery training and awareness throughout the organisation, and you have to know that your accounting procedures are tight enough to identify potential slush-fund monies anywhere in the organisation,” Munro says.

If a court finds that it was easy for an offender to get company funds to pay bribes, that is not going to work well for the company at all.

‘We are emphasising to clients that your defence has to go beyond paper procedures’

Quick action points

- 1** Understand the differences between the FCPA and the Bribery Act, i.e. no tolerance of facilitation payments.
- 2 Understand and deal with the “agency problem” – get transparency over actions carried out on the company’s behalf anywhere in the world.**
- 3** Put proper anti-bribery procedures in place and be active in training staff.
- 4 Embed zero tolerance for bribery in the corporate culture.**
- 5** Use the “smell test” on hospitality. If it smells right, it probably is right, and vice versa.
- 6 Make accounting procedures fine grained enough to detect “slush funds” in subsidiaries.**
- 7** Take the Act seriously, before it takes a serious look at you!

Working in the charity sector

No matter how aspirational they are, management accountants face a series of roadblocks in the course of building careers in organisations. Experts reveal the four key obstacles that need to be addressed in the course of becoming global leaders

Introduction by Sharon McCue, member of CIMA Council and chair of its Lifelong Learning Committee.

The only certainty in the world today is that it is uncertain. With recession, redundancies and shifts in the global power base, organisations want employees who can demonstrate that they are adaptable enough to apply their skills in a range of different settings and make the best use of scarce resources. This article proposes that your involvement with the “third sector” is another way in which you can demonstrate that you are capable of applying these skills, and at the same time help to improve your community and give something back.

It’s difficult to identify just how big this third sector is and just what it includes. The National Council for Voluntary Organisations defines it as “people acting together, independently of the state or the market, to make a positive difference to their lives and/or the lives of others”. Its most recent publication shows that for England and Wales alone the sector amounts to some 900,000 organisations, with a combined income of £157bn and employing 1.6 million paid staff. Government has been actively encouraging local private/public/third sector partnerships in the design and implementation of services for the community.

CIMA recognises the role that its students and members can play in all sectors. Its mission – “helping people and businesses to succeed” – can also be applied to the third sector. CIMA supports a range of courses and conferences tailored to this area, helping students and members keep up to date with topics such as VAT and tax relief, while a

charities checklist for the recession provides practical advice for those thinking of acting as trustees.

Today we are witnessing a radical shake-up of this sector. With the push for transparency, increasing public confidence/regulation through the review of the Charities Act, and debates looming about the role and remuneration of trustees, the management accountant has an important skillset to offer. Charities aiming to make good use of scarce resources need to clearly understand the environment in which they operate, keep a close eye on fundraising activities and build partnerships in both the private and public sector. A management accountant could be directly involved in providing information to support such decisions.

There is no doubt that to operate in this sector you will need to be an excellent communicator. You will be working with many who are non-financially trained so it’s important to be able to express yourself in non-financial terms. People are likely to look to you for advice and support on how to best manage small, and often reducing, budgets. Your knowledge of budgetary control and value-for-money initiatives may be put to the test.

There have been many very public examples of charities that have got it wrong. Preserving the reputation of a charity is one of its most important goals in this context. Damage to public confidence can threaten its very survival so the skills that you can bring in terms of financial/cash management and overall good governance should be valued.

There are a number of CIMA students and members of the CIMA Council that play an active role in this work. Here are some of their experiences.

Working for a charity

by Richard Kenilworthy

Charity can describe a wide range of organisations. Some are highly structured, with a formal organisation chart publicly available, others less so. A charity can also be a small group of volunteers just getting on with the job.

Each charity will have a clear mission statement setting out what the organisation is there for and how it aims to meet the needs of those it serves. Some may hire professional administrators, while others rely entirely on part- or full-time volunteers. Some of these may be people “between jobs”, or who have retired but choose to donate their time to help others less fortunate than themselves. Others may volunteer on their day off, or spend their holidays volunteering. These may include

‘Each charity will have a clear mission statement setting out what the organisation is there for and how it aims to meet the needs of those it serves’

people who themselves have benefited from the charity in the past and want to give something back. Often, such people will have a passion for the charity.

The biggest assets of the charity are often the volunteers themselves so it is important to maintain their enthusiasm. Charities rely on those who have many years' experience and need to find a way to pass on their knowledge to the incoming workers. Communication of the vision is essential to enable newcomers to understand the work of the charity. The use of stories, in particular how and why the charity was started and how it has grown, can be particularly effective.

Within the charity sector there is a culture that has to be understood. It is not simply a matter of saying: "Here I am, a management accountant, the answer to your needs!" You must at least be sympathetic to the goals of the organisation, and ideally have a burning desire to help the charity meet its goals. In order to do this you may need to be flexible in terms of the tasks you do and be ready to help out where needed.

A downturn in the economy can hit charities hard. It may restrict both their activities and their ability to recruit and retain staff, particularly accounting staff. Also, potential volunteers may prefer to remain in full-time employment rather than retire early and volunteer for a charity. Management accountants working in charities may find that, in addition to their high-end work, they also have to get involved with more routine activities due to a shortage of junior accounting staff.

National charities may have local groups with treasurers who have no financial training producing their own accounts in their spare time that need to be consolidated with the accounts of the head office and, just like in commercial accounting, all intra-group sales need to be eliminated and no profit taken for sales within the charity. In this case, the key is to have very clear instructions on how to complete the pro forma returns.

International charities will have operations in other countries that need to be consolidated together and all foreign transactions need to be converted into the reporting currency. At each year end, all the balance sheet items of the foreign entities need to be revalued at the closing exchange rate.

By working for a charity you will learn a wide range of skills that are transferable to the commercial sector, but beware, working in the charitable sector can be habit-forming! How can I use my skills as an accountant to help a charity?

1 Find out about charities in your local area, but consider national charities too.

2 Offer your accounting services on www.global-hand.org.

This is a website designed to match the needs of both UK and international charities with offers to donate goods and services. Once your offer is posted, individual charities respond and you may be given details of charities who are interested in taking up your offer of services. It is then up to you to choose which, if any of them, you wish to help.

Richard Kenworthy, FCMA, CGMA, is chairman of the CIMA Hong Kong branch.

Working as an accountant in a charity regulator

by Norman McFarlane

My role at the Office of the Scottish Charity Regulator (OSCR) is to manage the monitoring team, which deals with those charities that have an income of at least £25,000 (around one third of the sector in Scotland) and all cross-border charities.

I joined the OSCR in 2006, the year in which the current monitoring programme began. We faced a tough starting point, as previously the majority of charities were not required to submit accounts to a regulator. Unsurprisingly, the change to submitting accounts to the OSCR was a massive culture shock for the sector, but one of the biggest challenges we have faced has been to improve the compliance level of accounts prepared by charities.

The OSCR has always taken a proportionate approach to accounts compliance. In the early stages, we accepted all accounts that were filed with us, but highlighted basic deficiencies to the charity and asked that they correct these the following year. While this improved standards in some charities, many continued to make the same mistakes and it was clear that a more stringent approach was needed for those filing accounts that lacked the basic requirements.

In 2008, we therefore introduced our policy of failing non-compliant accounts, initially concentrating on the form and content of the financial statements, and in 2010 moving on to include external scrutiny. This means that now, we do not accept accounts where the requirements for the primary financial statements and external scrutiny set out in the Charities Accounts (Scotland) Regulations 2006 (the Regulations) have not been met. This has seen a significant improvement 

'One of the biggest challenges we have faced has been to improve the compliance level of accounts prepared by charities'

in compliance levels, to a position where 80 per cent of all accounts received are assessed by us as meeting requirements.

However, our approach of tackling non-compliance has not been without its difficulties. We still receive telephone calls asking for assistance to correct errors, including some from qualified accountants.

Some question the logic of the reasons given for failing the accounts and seek a dispensation. We explain that the Regulations are not rules that the OSCAR has developed, but are set out in statute. These were subject to public consultation and detail the requirements for receipts and payments accounts, provide the legal backing for the Charities SORP (which contains the requirements for accrued accounts) and set out the rules for independent examination and audit.

The following points may help anyone involved with charity accounts to avoid some of the more common mistakes that we continue to see.

- For mainstream charities, the income statement is called the Statement of Financial Activities (SOFA), with a corresponding balance sheet, or a receipts and payments account with a corresponding statement of balances. The type of accounts prepared depends on the gross income of the charity, its legal form and constitution, and any decision by the charity trustees.
- The figure at the bottom of the SOFA should equal the balance sheet total.
- Capital grants received or receivable are included as income within the SOFA.
- The Charities SORP sets out strict criteria that must be fulfilled before income can be deferred in accrued accounts.
- Receipts and payments accounts are a cash-only statement and should not include any accruals or depreciation charges.
- Always check to see if there is a specific requirement to have the accounts audited in the charity's governing document.

In June 2012, we launched OSCAR Online, our new online filing facility. This provides flexibility, convenience and control for charities in making their submissions. Importantly, the new online forms support charities by only accepting correct and consistent information. We are actively encouraging charities to sign up to the new service and expect many to do so as they appreciate the benefits.

Norman McFarlane, a Fellow of CIMA, is OSCAR's monitoring manager responsible for monitoring Scottish charities with a gross income greater than £25,000.

The challenges of working with small charities and helping them meet the regulator's needs

by Alistair Taylor

The first thing to remember when working with charities is that they are there to serve their target community. They will do their best to look after the finance, but it is sometimes viewed as a distraction, or is not fully understood, and is therefore not looked after properly. As chartered management accountants we can help bring a level of financial discipline to charities by volunteering to be the treasurer, providing assurance as independent examiners, preparing their accounts, or simply providing some good advice.

In my experience, the good advice is the key element that charities often need. For example, one charity I advised thought that it could simply get an empty shop, take donations and use the money. It had no idea of the associated costs and legal implications, as all it could see was the potential to raise money for its cause. All it needed was a steer in the right direction, which it was delighted to receive.

If you are interested, I suggest that you volunteer to work with a local one, perhaps by offering to prepare its accounts for examination or audit. If you work with charities you will quickly learn negotiation skills ("the mortgage is a loan, not income, and we can't show it as income because..."), teaching skills ("the hall hire can't just be paid from the collection and excluded from the total income"), and you will gain a sense of proportion ("but the pennies matter, we have to show them in the multi-thousand pound accounts"). You also need an ability to produce accounts from bank statements, an exercise jotter, some receipts and sticky-backed plastic!

Independent examination of charities is an interesting area. It is not an audit, so CGMAs can undertake them. The examination is not that rigorous, but is still used to provide reassurance, and is defined by the Charity Commission as "an independent examination is a simpler form of scrutiny than an audit but it still provides trustees, funders, beneficiaries, stakeholders and the public with an assurance that the accounts of the charity have been reviewed by an independent person" (CC32 – Independent Examination of Charity Accounts – Examiners' Guide).

I can honestly say that working with charities brings a real sense of satisfaction that we don't always get in the day job.

Alistair Taylor, FCMA, CGMA is a member of CIMA Council, representing Area 7 (Scotland).

'I can honestly say that working with them brings a real sense of satisfaction that we don't always get in the day job'

What you learn on the... Investigating the dark side of business

Mike Mason, FCCA, is a forensic accountant at accountants BDO and is also a barrister. He runs the Bar Standards Board's teaching on forensic accounting for family, civil and criminal law for all newly qualified barristers

The starting point for this one-day course (six CPD hours) was an interest on the part of CIMA and BPP to increase training in the area of fraud. Corporate fraud has increased dramatically in recent years. Frauds of £50,000 and above have increased 50 per cent in 2011 on the previous year, to £2.6bn in the UK. We only know of about one-tenth of cases, but we know it's definitely on the rise. We're seeing it increase because of the number of instructions we're getting.

I would say it's a live topic for several reasons. In recessions, organisations reduce their head count so people are less likely to be supervised in areas of responsibility. And because of the recession they are also less likely to have been rewarded for their efforts so they have other financial motivations that come with being in an economic downturn to commit fraud.

Another issue is that directors start looking more closely at the accounts in a downturn. As a result, we have a lot of financial controllers, directors and company accountants on the two-day course.

We start the course by looking at what fraud is. We consider important concepts of the law on fraud; the burden of proof and how fraud occurs in the UK. In addition, we look at the type of person who carries out fraud and their motivations for doing so.

We then look at the different types of fraud. They can be categorised into three broad types: theft of assets, financial statement fraud (when sets of accounts are altered) and fraud against parties outside the organisation.

We then consider the different pieces of fraud legislation. They include the Fraud Act 2006, the Bribery Act 2010, the Proceeds of Crime Act 2002, and how the three statutes link in.

We then look at forensic accountants – how do they operate and what advice do they give?



What is their role in deterring and investigating fraud?

We have a number of case studies and at this point we let delegates have a go at solving some of them. The role-play scenarios we offer depict real-life situations faced by organisations affected by fraud. In one scenario we examine how the Bribery Act and the Fraud Act interlink.

We then look at adequate anti-fraud procedures, i.e. what they need to be and what accounting controls need to be in place to prevent fraud.

We touch on the area of money laundering, an activity that often follows on from fraud.

A section on detecting fraud gives delegates the chance to understand how organisations can detect fraudulent behaviour in their business. It involves showing what risk assessments need to take place to spot problems, and to nip them in the bud before they develop into a major problem. This links in to a section on looking for indicators of fraud, i.e. what are the tell-tale signs that directors might spot?

Responding to fraud is tackled in a section devoted to "after the event". We give delegates an action plan and show them what to do about internal and external threats. Interestingly, we don't suggest you always contact the police when a

fraud is suspected. We provide a model for a fraud response plan.

We consider how you undertake a fraud interview if it is discovered and show delegates how to interview suspects and witnesses.

Lastly, we look at preventing fraud. What sort of plan companies can put in place?

One of the ways to tackle this is to put in place employment screening. There's quite a bit on that as you can dictate the terms a bit more in a recession.

We get delegates to do quite a bit of work and they have a go at questions that we set, so it is very interactive.

We finish by revisiting the area of fraud detection, looking at what controls should be in place, how you're going to spot it and how you're going to prevent it. There's quite a lot to take away in note form.

It's a very hands-on course. Delegates like to hear stories and I have lots of good anecdotes to explain a topic. But that's not very surprising given that I've been doing this for 21 years, either as an accountant or a barrister.

i Visit www.cimamastercourses.com for more details about this and all CIMA Mastercourses.

CIMA global events

Past events

UK team secures double GBC victory

Exeter University's 'The Indivisibles', comprising Kate Beattie, Adam Broadbent, Ronald Liong and Ben White, celebrated their win at CIMA's Global Business Challenge 2012 in Sri Lanka by declaring: "This has been an amazing experience. The journey has been incredible. We are so proud to have been able to stand shoulder to shoulder with some very talented upcoming business leaders."

The competition is designed to bring out the best in potential young business leaders and provide them the opportunity to showcase their talent on a global platform. The team won from 22 finalists and an initial 100 entries.

The finalists present a response and consultative advice to issues faced by a hypothetical company, as well as a promotional video. The panel of judges comprised global business leaders from some of the world's leading organisations. This year, these included finance professionals from Barclays, Unilever Sri Lanka Limited, Achievers Lanka Business School and Shine Group.

Allison Kirkby FCMA, CGMA, CFO of Shine Group, who helped judge the event, said: "The UK stood out, as they had gone deeper and broader into the range of issues being faced by the 'Board of Directors'. Whereas most other teams had focused just on the financial issues, the UK team also embraced industry, ethical and organisational issues, and proposed some really smart solutions to them."

The UK team celebrated a double victory as they also won the Judge's Choice Video Competition. The Patriots from University-Dasmarinas in the Philippines won the People's Choice Video Competition.

South African scoops GBC Future Business Leader Award

Sizwe Nxumalo from Witwatersrand University, South Africa, picked up the prestigious Future Business Leader award at the 2012 CIMA Global Business Challenge (GBC).

The award is presented to the student who possessed both outstanding presentation skills and the ability to convince the judges of their business standpoint. Sizwe beat more than 14,000 students to attain the accolade. During their interviews the finalists faced rigorous questioning. Sizwe



*CIMA President
Gulzari Babber with
the winning team*

pipped Prachi Metha of team Veritas from the Middle East and Julie Niblock of Q Consult from Ireland, who were joint runners-up.

Szilard Brenner, internal audit manager, southeast Asia at Tesco Stores Limited and who judged the event, said: "Sizwei is a high calibre and inspiring individual who showed understanding of what it takes to be a great leader by sharing his experience and his vision to become one. These included; importance of recognising others, exposing them to their potential and encouraging people to work together towards a common goal."



Australia and New Zealand commended with runner-up prizes

Eva Consulting from the University of New South Wales picked up second place at the CIMA Global Business Challenge (GBC).

The team overcame stiff competition from 20 other talented regions and just missed out on being crowned global champions.

Eva Consulting are a group of undergraduates majoring in Maths, Commerce and Law. The team consists of Andrew Gao, Jared Goh, Paulette Lo and Christine Zhou. Their motivation for participating in the CIMA Global Business Challenge derives from the opportunity to showcase their business talents on a global scale and to network with renowned industry leaders.

Eva Consulting said of their success: "Our participation has been a fantastic journey and we would like to pay tribute to our mentor Brian Barfitt and the university for their support."

Third prize in the competition went to the team from New Zealand, New Dimension Consulting. The team, Hannah Cleaver, Brian Maxted, Barrett Owen and Rhiannon Snell, said they were driven to take part by the opportunity to showcase their business talents on a global scale and to network with renowned industry leaders.

Coming events

UK

Employment status – getting it right

11 September, 2pm to 5pm
Manchester

Cost: £299 +VAT (£269 +VAT for CIMA members)

This half-day Mastercourse concentrates on the crucial area of employment status.

Call 0845 026 4722
or visit www.cimamastercourses.com/EMST

Discover the art of mind mapping®

11 September, 7pm
Quality Hotel Coventry,
Birmingham Road,
Coventry CV5 9BA

Contact Julie Witts at
region.four@cimaglobal.com

Creating highly productive and highly positive teams

13 September, 7pm
Holiday Inn Derby/
Nottingham Sandiacre,
Nottingham NG10 5NJ
This session will explore the different types of teams that accountants may be involved with and looks at six factors that represent the key to the success of the team.

Visit www.cimaglobal.com/eastmidlandsandeastanglia

Professional ethics and the Bribery Act (joint event with AAT)

15 Sept, 9.30am to 1pm
Kingsley Village, Penhale,
Fraddon, Cornwall TR9 6NA
What does business ethics mean for me? What exactly is professional ethics? What is the Bribery Act? How can these affect you in your job?

Contact Suzanne Allen on
+44 (0)11 7960 9734 or email
region.two@cimaglobal.com

Skills for getting a job

17 September, 7pm
De Vere Daresbury,
Chester Road, Daresbury,
Warrington WA4 4BB
This event will cover how to write a CV, how to stand out from the crowd, preparing for the competency-based interview and striving for promotion.

Visit www.cimaglobal.com/northwestenglandandnorthwales

Radical pension reform affecting all employers

18 September, 7pm
Hugh Aston Building,
De Montfort University,
Leicester LE2 7BQ
This presentation will cover a review of the key aspects of Proceeds of Crime Act legislation and money laundering regulations, an introduction to the much-debated Bribery Act and an examination of the latest developments, as well as exploring recent cases to examine the pitfalls for accountants in business.

Visit www.cimaglobal.com/eastmidlandsandeastanglia

IFRS – new and revised standards

18 September, 9am to 5pm
London
Cost: £599 +VAT (£539 +VAT for CIMA members)
This Mastercourse will provide an overview of all the new and revised standards that will impact the current financial year

and beyond.

Call 0845 026 4722
or visit www.cimamastercourses.com/NARS

CIMA South West England and South Wales Area planning day

22 September, 10am to 4pm
Holiday Inn Filton, Filton
Road, Hambrook, Bristol
BS16 1QX
Open to members and students, this is your chance to give your feedback and views on how we can promote CIMA locally.

Contact Suzanne Allen on
+44 (0)11 7960 9734 or email
region.two@cimaglobal.com

Tax update and topical issues (joint AAT)

25 September, 7pm
Hallmark Hotel Derby,
Midland Road, Derby
DE1 2SQ
This joint event with the AAT will provide a budget update covering recent changes, along with an update on capital allowance
Visit www.cimaglobal.com/eastmidlandsandeastanglia

Competency-based assessments with interview tips and techniques

27 September, 7pm
The Arden Hotel,
Coventry Road, Bickenhill,
Birmingham B92 0EH
This event will look at the important areas to consider when applying for a job. Held in association with the Gleeson Recruitment Group.
Contact Julie Witts at
region.four@cimaglobal.com

Finance partnering workshop

27-28 September, 9am to 5pm
CIMA, 26 Chapter Street,
London SW1P 4NP
Cost: £699 +VAT (Early booker rate of £599 +VAT)
This two-day workshop builds on the skills and techniques that are essential for effective collaborative and business partnering finance roles.
Call 0845 026 4722
or visit www.cimaglobal.com/financepartnering

Forensic accounting

15 October, 9am to 5pm
London
Cost: £599 +VAT (£539 +VAT for CIMA members)
Presented by a forensic accountant experienced in fraud investigations who is also a criminal barrister, this course will provide both an accountancy and a legal insight, and includes many true-life fraud case studies.
Call 0845 026 4722 or visit
www.cimamastercourses.com/FUFA

Executive CPD Academy

18-19 October, 9am to 5pm
CIMA, 26 Chapter Street,
London SW1P 4NP
Cost: £1,795 +VAT (early booker rate of £1,495 +VAT on all bookings placed on or before 24 September).
An event for senior executives focusing on the strategic side of finance.
Call 0845 026 4722
or visit www.cimaglobal.com/executive

Visit www.cimaglobal.com/events for updates and a full list of events, which are free unless otherwise stated.
CIMA Mastercourses – your catalyst for business change: visit www.cimamastercourses.com or call 0845 026 4722.
To submit an event for this page, email michaela.lambert-beresford@cimaglobal.com

The Institute

Selection of new reports now available

A selection of new CIMA/CGMA reports has been launched. The first – “The Fast-track to Leadership: the challenges, opportunities and action plan”, produced in partnership with Hays, examines the skills and attributes required to be a finance leader in today’s competitive business environment.

It sets out the impact of the current business landscape on the organisation in creating challenges and opportunities for the management accounting community, namely:

- **Organisations are operating in an increasingly complex business and regulatory environment as they face rising uncertainty and fast-paced change in a competitive landscape that is ever more challenging.**

- In many organisations, the expectations of finance and its leadership are increasing and becoming more complex in order to meet the demands of the board and wider business.

- **This, in turn, is placing a greater demand on the capabilities, in terms of skills, experience and behaviours, of management to meet the needs of the business and progress their own careers.**

- Equally, it provides the CGMA with opportunities to progress, raise its profile and demonstrate the unique value it brings to the organisation. CIMA’s 2012 report, “Defining the profession: How management accounting creates sustainable success”, shows that the aims of management accountants are closely aligned with the aims of the board in an



organisation. The board leads on the long-term sustainable success of the organisation by setting the strategic direction and overseeing its implemen-

Report sets out skills needed to be a finance leader in today’s competitive environment

tation. To ensure that strategy is implemented the objectives of the board need to be linked with those of the business to determine the right decisions on activities and resource allocation to be made. Management accountants have a distinctive set of skills, which means they are exceptionally well placed to offer support and ensure these links are made. How do CGMAs achieve this and work to create value for the organisation? They combine financial expertise and business acumen. CGMAs apply non-financial, qualitative information

alongside the financial facts to inform decision-making. They drive strong performance and are trusted to guide critical business decisions, bringing independence and objectivity. In this context of change, there are some key areas for the CGMA to consider to fast-track their career:

- **Developing a diverse set of skills and experiences, combined with a strong base of personal and professional integrity, is the key differentiator for CGMAs, bringing long-term success to their organisation, as well as to their own careers.**

- The CGMA designation, with the accounting and business acumen, and the management and analytical and decision-support capabilities, provides a great opportunity to management accountants to progress within finance. It also facilitates moves outside finance into wider business.

- **CGMAs need to take ownership of their career planning and commit to lifelong development to remain fit for purpose and retain the differentiation and value that the CGMA designation provides.**

The global executives who participated in this programme felt strongly that a career in finance has always been varied and rewarding. Yet given the insights we have explored in this paper, has there ever been a better time to be a management accountant?

Meanwhile, a CGMA executive report on the future of management, entitled “New Skills, Existing Talent: Future Value” and compiled in partnership with the University of Bath, outlines that for organisations to remain competitive and have a sustainable performance, they require all individual parts of the organisation to be contributing to the overall aims, goals and commercial objectives of the company.

PRESIDENTIAL ENGAGEMENTS

13-19 July CIMA Cricket Across the Pond Event
21-26 July Global Business Challenge, Sri Lanka

The report states that many organisations are working to transform their finance functions to take a broader and often leading role in contributing more to their organisation's success. This transformation may include finance conducting their core activities more efficiently, collaborating more with the business to provide better and more insightful management information and performing a more influential role in management.

CIMA and the AICPA commissioned the CIMA Centre of Excellence at the University of Bath School of Management to undertake a major survey for this report to establish whether finance professionals are expected to take on such a broader role, to look at what the constraints might be to the role of finance being transformed in this way, and the impact on the competencies required for the management accountant.

For the report, more than 2,000 professionals were surveyed across a range of industries and markets, comprising 1,354 finance professionals and 871 non-finance business executives, who discussed factors behind successful finance transformation and other insights into finance's evolution.

The report concludes that moving outside the traditional comfort zones of their profession, finance experts are providing financial, and often non-financial, information and analysis about, for example, internal and external drivers of cost, risk and value. They routinely contribute to operational and strategic decision-making and have increased their influence at all levels of their organisations. In short, they are the vanguard of finance transformation, a trend towards deriving more value from finance.

NOTICE OF ELECTION RESULTS

Election to Council – CIMA electoral constituency 3 (EC3)

(East Midlands and East Anglia)

Graeme Makepeace has been elected for EC3 (East Midlands and East Anglia) for his first term as a member of the Council. He fills the casual vacancy created by the resignation of Will James.

View from professional standards...

The joy of CPD

CIMA members do not audit. They are management accountants and reporting is just a part of what they do. They look to the future, they plan, and they add value by their forward thinking. This is the approach to CIMA professional development (CPD) that CIMA champions.

Under the membership regulations of CIMA as a charter-holding professional body, CPD is a mandatory requirement of all members, whatever their employment status or sector and wherever they are in the world. Each year one in every 120 members in business and one in five members in practice are selected at random for the monitoring of their CPD records. CIMA's regulators have the right to check that CIMA is fulfilling its obligation to monitor – and they do.

‘We want to know how you have maintained your skills and addressed any gaps’

CIMA operates an “output”-based scheme to act as a spur to future and onward career and business development. It's what you get out of your learning endeavours that matters. We want to know how you have maintained your skills and addressed any gaps. How many times do you say to yourself: “I didn't know that – that was useful.” If you say that, then that is CPD.

The CIMA “six-point cycle”: Define ⇒ Assess ⇒ Design ⇒ Act ⇒ Reflect ⇒ Evaluate, and the ensuing learning outcomes will help you to concentrate on

the learning activities relevant to you and your career. As a professional body, CIMA tells the world that our members keep their knowledge up to date and strive to improve. Our outward face is that of highly employable management accountants that add real and measurable value to businesses. Full engagement in the CPD process is integral to this. The six-point cycle encourages assessment of your current position, identification of knowledge gaps and an almost endless ability to be creative in satisfying those learning needs – it is not just about attending courses.

Those members that have been selected for monitoring in 2013 will shortly be contacted by CIMA. There is no need for CPD reporting to be stressful, just look at opportunities to learn throughout the year, remember to include online learning, reading, courses and conferences, but also writing, research and passing knowledge on to others. Record your CPD throughout the year – it will be useful to you in appraisals, career development discussions and job interviews.



CIMA CEO column

‘Bonuses promote a “something for nothing” attitude’



The revelations keep coming as the issues around executive pay continue to rock the world stage. The villains of the piece change, but the story stays the same. Executives continue to reward themselves, regardless of performance, and shareholders tire of watching them line their own pockets rather than that of their organisation and wider society.

The row over rising executive pay intensified with a recent survey by Manifest/MM&K showing the median total remuneration of FTSE 100 bosses increased 10 per cent in 2011 to £3.7m. The rise was five times the increase in average earnings, well above inflation, and came at a time when the FTSE 100 index fell five per cent.

Add to the mix the latest revelations involving Barclays and the bankers are back in the spotlight. The total fines levied against Barclays for attempting to manipulate interest rates reached £290m, and the Financial Services Authority continues to investigate the activities of others banks.

In October 2009 I suggested in this column that a large slice of an individual's bonus should be paid in equities and placed into their pension. That way, they would have a direct stake in the long-term future of their organisation and would have no choice but to consider its sustainability. I emphasised how forcing star traders to put their bonuses into their pensions would retain their incentives, while at the same time identifying a common interest between the company and its workforce. This recommendation still rings true today, though few companies are moving towards this approach.

I also wrote that the ethos of business should be to create long-term sustainable value in a respon-

sible way, and the recent news of JPMorgan clawing back pay from senior executives responsible for excessive trading losses serves as a warning. The tide is turning.

CIMA supports remuneration aligned to performance, with pay schemes linked to long-term strategies, objectives and performance goals of organisations. Indeed, executive incentive schemes that encouraged excessive risk taking and short-term gains directly contributed to the economic crisis.

We work in a global world where there is a necessity to pay the going rate for a position, and organisations have to align their pay to the global marketplace in order to secure the best talent. However, the focus of remuneration systems must be to encourage behaviours that benefit the long-term health of companies, mixing immediate and deferred payouts.

I personally believe in the “salary at risk” approach. We should stop talking about bonuses as this promotes a “something for nothing” attitude. The executive remuneration package should be regarded as part fixed and part “at risk”, depending on performance. If an excellent performance is achieved then the full remuneration package would be paid. If not, then a lesser sum would be paid. Robust and challenging targets relating to an appropriate level of “at risk” pay would help to avoid the general public regarding incentive pay as either excessive or as a reward for failure. Transparent reporting of targets, achievements and payments remain paramount.

It is time for the audience to witness a satisfactory conclusion to this story and it is down to the leading players, including boards and investors, to ensure that this actually happens.

‘Remuneration systems must encourage behaviours that benefit the long-term health of companies’

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Charles Tilley writes a regular column for CGMA Magazine, entitled One-to-one: top tips from the boardroom. Visit <http://tiny.cc/k671hw>

Charles Tilley, FCMA, CGMA
Chief executive, CIMA

Charles Tilley

CIMA and an entrepreneur answer your questions

This month... ‘Our firm wants to enter a totally new sector, of which we know nothing. Is that crazy?’

CIMA versus Stephen Fear

A. CIMA

On the face of it, moving into a sector of which you know nothing is a very high risk strategy, and your company needs to carefully consider its reasons for wanting to do this.

The plan needs first to be evaluated in terms of its fit with the company’s mission and objectives, as well as its acceptability to stakeholders. Will the change in strategy meet with resistance, and how can this be overcome? Management must also consider the resources available against those required – is this venture affordable in terms of money and staff time?

The firm needs also to consider how it will enter this new sector. Building on and developing existing capabilities, perhaps through market research and the recruitment of staff with knowledge of the new sector, can be a slow process. Such internal development is likely to be popular with stakeholders, but also carries the risk of distraction from core operations.

Other options to gain the core competencies needed to succeed in the new sector are to acquire an existing business in that sector, which can be relatively fast and has the advantage of knocking out a competitor.

However, with limited knowledge of the new sector, it may be difficult to convince potential targets that you understand their business and can add value.

A third approach to entering a new sector is to consider forming a strategic alliance with another organisation, in order to benefit from existing distribution channels, knowledge and expertise. The risk and expense is shared, but conversely so are the returns, and there is additional risk to reputation should the partner company fail to deliver. The CIMA Mastercourse “Joint ventures and strategic alliances” will give you plenty of insight into the process.

Essentially, the firm needs to consider whether the risk of taking resources away from its known markets will be balanced by higher returns in the new, unknown market.

Rebecca McCaffry ACMA, innovation specialist at CIMA

A. Stephen

In the words of Albert Einstein, “anyone who has never made a mistake has never tried anything new”.

I have founded more than 70 firms and many of these were in sectors that were initially outside my comfort zone. I learned that the trick is to analyse, understand and research any new sector until it is no longer new. The company should ensure that it knows everything beforehand, reducing the risk involved. This should entail analysing the company’s competitors, market trends and conducting a detailed investigation of the finances and possible margins.

A great example of this is the launch of the Toyota Lexus. Before 1989, Toyota didn’t manufacture luxury cars. However, after the company had researched and

stripped down the Mercedes S-Class model, it came up with a new, luxurious car to target a new market.

We allow at least three months for due diligence and research before committing to any new business venture, and would suggest that anyone looking at a completely new sector needs to double that. For example, someone looking into the café sector should visit as many cafés as possible and watch closely the customers’ reaction to things such as seating, what drinks are bought and what food products are favoured. The same attention to detail should apply, regardless of the business sector. Make your mistakes on paper before you buy.

Going into a sector that you know nothing about is crazy, but if the company becomes an expert and makes decisions based on research, the risk will soon become an opportunity. I’m always looking to learn about, and possibly move into, new sectors and from my point of view, this is what being an entrepreneur is all about.

Stephen Fear is the entrepreneur-in-residence at the British Library, giving advice to entrepreneurs. He founded his first company, selling oven-cleaning fluid, when he was 15.

Do you have a question you’d like to pose to CIMA and a top entrepreneur? Tell us at questions@fm-magazine.com

