The Institute is the professional body for Chartered Accountants in Australia and members operating throughout the world.

Representing more than 73,000 current and future professionals and business leaders, the Institute has a pivotal role in upholding financial integrity in society. Members strive to uphold the profession's commitment to ethics and quality in everything they do, alongside an unwavering dedication to act in the public interest.

Chartered Accountants hold diverse positions across the business community, as well as in professional services, government, not-for-profit, education and academia. The leadership and business acumen of members underpin the Institute’s deep knowledge base in a broad range of policy areas impacting the Australian economy and domestic and international capital markets.

The Institute of Chartered Accountants Australia was established by Royal Charter in 1928 and today has more than 61,000 members and 12,000 talented graduates working and undertaking the Chartered Accountants Program.

The Institute is a founding member of both the Global Accounting Alliance (GAA), which is an international coalition of accounting bodies and an 800,000-strong network of professionals and leaders worldwide; and Chartered Accountants Worldwide, which brings together leading Institutes of Chartered Accountants in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support, develop and promote over 320,000 Chartered Accountants in more than 180 countries around the world.

charteredaccountants.com.au

About these Business Insights

This Business Insights is an initiative of the Institute’s National Corporate Advisory Committee.

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Foreword

I am proud to present to you, Business Insights.

The publication of Business Insights (formerly known as Business Guidance Notes) began as an initiative of the Institute’s Victorian Corporate Advisory Panel in December 2009 to provide finance executives guidance on key business and financial management policies and procedures.

The initiative was adopted in early 2010 on a national basis by the Institute’s National Corporate Advisory Committee, which advises the Institute’s Board on matters impacting Chartered Accountants in Business.

Since then, the Institute has been regularly publishing Business Insights on a variety of subjects, designed to offer practical, relevant advice and information to Chartered Accountants who work in business. Each insight is written by members for the benefit of other members by offering expertise and practical examples of some of the day-to-day challenges they, and their teams, face in the business world. Many of the insights have been developed by members of the Institute’s Corporate Advisory Panels.

Business Insights are added to this document as they are released and will be available on the website, and include a wide range of topics such as:

- Year-end planning
- Software capitalisation
- Rolling forecasts
- Month-end reporting
- Effective performance reviews.

I hope you’ll find this tool valuable and interesting and I welcome any feedback to olwyn.odowd@charteredaccountants.com.au on future topics or resources we can provide to assist you in your work.

Olvyn O’Dowd
Head of Members in Business
Institute of Chartered Accountants Australia
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Expense policy formulation

Expense policies are a critical element of the governance structure for any business, reflecting the expectations and obligations of both management and staff. The challenge for today’s finance executive is to ensure policies are clear and coordinated to promote the desired outcomes.

Choosing your approach

The approach you take with your Policy involves making some upfront decisions.

1. Thick vs thin
Even before starting, it’s best to know in advance whether you want your policy to be an extensive ‘War and Peace’ or a ‘Top 10’ list. Knowing this in advance will help you scope out how comprehensive your policy will be and the range and depth of each topic covered.

2. Principles based vs prescriptive
The policy may either provide general principles to guide preferred behaviour or it may be prescriptive requiring specifically defined behaviours. The preferred approach will often be defined by the management style or structure of the organisation.

3. Pre vs post checking
The number of expense claims and the timing of available resources you have will often dictate pre or post checking of invoices/receipts. Pre checking involves verifying all receipts before processing and is the ideal control environment to minimise errors. Post checking involves employees submitting claims in a self-assessment environment with an internal audit function to monitor compliance.

4. Technology vs manual
Whether you are currently manually collating forms or have a fully integrated online system, technology has a role to play to improve the efficiency and effectiveness of expense claim processing. However, systems require an investment of resources (such as time, money and staffing) which may not be a priority for your organisation.

5. Centralised vs decentralised
The centralised or decentralised structure of an organisation will provide guidance on how a new or updated policy is formulated and communicated. Depending on the size of your organisation, this will either be the responsibility of a centralised department, decentralised to each of the business units, or something in between. Making this choice upfront is a strategic priority to ensure the right stakeholders are engaged throughout the process.

Policy content

The choices made in how to approach your policy will greatly influence what content is needed to address these choices. While every organisation will be different, it is considered best practice that the following elements are included:

• **Policy control details**: basic information such as date of issue, policy sponsor and contact person should appear on all policies so employees can understand the context in which the policy has been issued.
• **Definitions**: a definitions section will clarify key words and phrases used in the policy that can be tailored to your business. This will promote greater understanding of how the policy is to be applied.
• **Allowable expenses**: clearly define allowable expenses with additional guidance on how this process will work in practice, and the approval process employees need to adhere to. See the following allowable expenses framework.
• **List of non allowable expenses**: an effective way to minimise areas of grey is by establishing specific non allowable expenses and allowing managers to update their policies (by amending the list if required) to close any known ‘loop holes’.
• **Delegated authorities**: a clear list of delegated authorities should support the policy to ensure employees know who they can approach to get approval for their expenses. If a dollar limit applies, this should also be included. This element is critical to ensure the policy is workable by having the appropriate people sign off at the business unit level.
• **Consequences of non compliance**: employees need to be aware of what happens when there is a breach. This may be a ‘three strikes’ system and/or a range of disciplinary actions depending upon the severity of the breach. This element is important to promote the right behaviour and deter any non compliance.
### Contributers

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### Tax compliance

Consideration needs to be given to the following taxation issues:

- **Income tax** – ensure receipts and travel diaries satisfy the record keeping and substantiation requirements to claim an income tax deduction.
- **GST** – ensure a valid tax invoice supports the item of expenditure to enable any GST paid to be claimed.
- **FBT** – where expenditure items are subject to Fringe Benefits Tax (e.g. entertainment), ensure appropriate reporting systems are in place to capture this together with the payroll system for any reportable fringe benefits.

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### Allowable expenses framework

The illustrative framework below lists a number of key attributes that can be used for preparing a Policy for each allowable expense.

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scope</strong></td>
<td>Identify the specific type of expenses and the situations these cover.</td>
</tr>
<tr>
<td><strong>Approval</strong></td>
<td>State whether pre or post approval is required.</td>
</tr>
<tr>
<td><strong>Procure</strong></td>
<td>State who is permitted to make purchases. This may be the employees themselves, centralised internal coordinator(s), a manager or a combination of these.</td>
</tr>
<tr>
<td><strong>Preferred suppliers</strong></td>
<td>Identify whether there are any pre-negotiated arrangements with preferred suppliers or a ‘best price on the day’ policy will apply.</td>
</tr>
<tr>
<td><strong>Spend amount</strong></td>
<td>State any limits that will apply which can be:</td>
</tr>
<tr>
<td></td>
<td>- Prescriptive in either setting a dollar amount or benchmark standard (e.g. all travel will be booked economy class)</td>
</tr>
<tr>
<td></td>
<td>- Principle based requiring the employee’s judgement to interpret principles (e.g. all expenses must be ‘reasonable’).</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>Include other relevant items that require consideration. For example:</td>
</tr>
<tr>
<td></td>
<td>- Airline travel: travel diaries; reward programs</td>
</tr>
<tr>
<td></td>
<td>- Accommodation: mini bar; in house movies; room service</td>
</tr>
<tr>
<td></td>
<td>- Rental car: infringement notices</td>
</tr>
<tr>
<td></td>
<td>- Entertainment: reporting for FBT purposes.</td>
</tr>
</tbody>
</table>

---

### Don’t forget...

- Spend the time required to define your approach.
- Provide a clear delegated authority list that fits on one page for easy reference.
- Understand the internal compliance risk requirements.
- Use corporate cards wherever possible for all expenses.
- Ensure whoever approves the expenses has the cost allocated to their budget.
- Provide easy access to the policy (e.g. within three clicks on the company intranet).
- When employees submit expenses, ensure they sign off to confirm compliance with the policy.
The year-end process
Part 1: Planning

The year-end process is a busy and often stressful time, culminating in the production of the organisation’s annual report. For many finance teams, this represents the biggest project management assignment for the year, drawing on their combined skills in the areas of technical knowledge, resource management and professional judgment.

Elements of planning a good year-end

1. The year-end instructions
The year-end instructions are one of the fundamental documents required to bring clarity to the year-end process. They require the discipline to think ahead and commit in writing the intended outcome of events with various stakeholder groups. The instructions will usually set out the requirements to be met by answering the who, what, when and why questions most often asked. This is further explored in the section overleaf.

2. Prepare the template financial report
Generally organisations will have a template or draft financial report reviewed and signed-off internally prior to year-end. This will include incorporating any new disclosure requirements, obtaining management or audit committee sign-off where decisions need to be made regarding disclosure alternatives, identifying information sources and preparation of comparative information.

3. Resolve issues early
Getting an early handle on the key technical issues impacting on the organisation will be a major indicator of the likely stress levels ahead. This involves an understanding of both the technical requirements and their commercial application, as well as the system implications of booking what can often be complex adjustments. Best practice would suggest succinctly summarising the key accounting issues in a document that can be used to inform or seek ratification from the audit committee and/or other stakeholder groups. The document should identify the issues in context, quantify the financial impacts and address how they are being resolved.

4. Stakeholder management and engagement
There are many stakeholders groups involved at year-end so it is a critical but challenging task to keep everyone informed throughout the process. A common and successful technique is to establish a group of appropriate stakeholder representatives (e.g. steering committee chaired by finance) who will take ownership of and co-ordinate the year-end process across the organisation. The stakeholder group should communicate regularly (e.g. weekly meetings) to work through their year-end preparation in a collaborative and inclusive manner. Engage with stakeholders early in the process and ensure that deadlines, responsibilities and expectations are clearly documented.

5. Hard close
Completing a hard close a month or two before year-end will allow a real-life practice run of the issues likely to be encountered. This requires all stakeholders involved to scope out deadlines, resolve key issues and have decisions made early by senior management. Once a hard close has been implemented, the year-end will become a roll forward of the last month’s operating results and will allow more time to address any surprises.

6. Resource planning
It is important to think ahead with resource planning as it is too late in July (or January for December year-ends), to realise that you need assistance. In these times, even the recruitment of suitable contractors can take several weeks. Reporting managers should always be thinking about the next period end and ensure that each period end is used as an opportunity to share and address concentrations of knowledge among their team.
The year-end instructions

Plans can either be very detailed or contain brief bullet points depending on the culture of the organisation and the intended audience. The exact choice of content in the instructions will be specific to each organisation. However, it is important that the content is of a high quality derived through a suitable planning process. The year-end instructions will commonly include the following:

- **Group structure chart:** ideally a one page diagram illustrating the parent/subsidiary relationships to identify who’s who in the group, especially for those businesses with complex structures
- **List of legal entities:** containing specific particulars that may involve ABN/ACN, TFN, general/special purpose accounts and audit/no audit required for each legal entity and the responsible finance team. This will assist to specify the exact reporting requirements at a legal entity level
- **Calendar:** highlighting key milestone dates including scheduled board meetings, results release date, audit clearance and AGM. Depending on the reporting hierarchy, this may also include divisional or regional reporting deadlines, assisting to define the critical time path and interdependence of each key milestone event
- **Headline issues:** one page summary of the key headline issues to promote understanding and education. Further details can be elaborated on in a separate report (e.g. Significant Issues Paper) to address the technical issues and how they are being resolved
- **Information requirements:** it is important to clearly articulate your information requirements in terms of what information is required, who must provide it and when it is due. Documenting and agreeing all of your information requirements during the planning phase will ensure that there are no misunderstandings or missing information during execution
- **Regulatory changes:** a brief overview of any changes (proposed or enacted) to the external regulatory requirements that impact on the group or company’s reporting, especially in the post-global economic downturn environment. Given the complex and technical nature of these, assistance may be sought from the external auditors and/or other professional advisors
- **Board and committee reporting:** engage with company secretariat early and ensure that board and committee meeting agendas are understood and responsibilities are clearly documented. Consider the representation letter process and the extent of supporting sign-offs required.

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**Example: pre year-end checklist**

This example checklist has been compiled using suggestive dates for a company with a 30 June year-end.

<table>
<thead>
<tr>
<th>Month</th>
<th>Milestone event</th>
</tr>
</thead>
</table>
| March | • Identify key headline issues  
        • Start to address how issues will be resolved  
        • Prepare year-end instructions. |
| April | • Impairment testing and engaging specialists e.g. actuaries  
      • Plan for periodic processes: stocktakes etc.  
      • Implement action to resolve identified issues  
      • Establish the year-end stakeholder group(s)  
      • Communicate the year-end instructions. |
| May   | • Finalise decision on identified issues and prepare for the hard close  
      • Commence stakeholder meetings and ensure all groups understand the requirements and their involvement  
      • Attend technical training to remain updated on changes to accounting standards. |
| June  | • Implement the pre year-end hard close  
      • Continue to draft the annual report with May close numbers  
      • Address any unexpected surprises from the hard close. |
The year-end process
Part 2: Execution and debrief

If finance teams were in a Broadway production, the arrival of year-end is ‘show time’. No more time for rehearsals, the spotlight now shines squarely on the numbers. It’s not the time to get stage fright but the perfect opportunity to implement a well considered and thought out plan.

This Business Insight is the second of a two part series which seeks to ensure finance teams give their best performance at year-end and emphasise the importance of a detailed debrief process once the main show is over.

Execution

1. Achieve milestones
To ensure the year-end process remains on track, it is critical that milestones are met. This obviously flows back into the planning phase to carefully define the task and set the appropriate timeframe.
This is not an easy task and often requires an element of trial and error over a period of time to find the right balance. The reporting manager needs to keep track of progress against the plan and be ready to respond as and when deadlines and deliverables start to slip.

2. Close out the issue
It is now time to close out unresolved issues and give a final sign-off on any draft positions held. It is advisable to review all issues that have been addressed in light of the actual year-end to either update or reaffirm their conclusion. Where appropriate, this may also involve the external auditors and/or other professional advisors finalising their advice and position on certain issues now that the year-end has approached. Ensure that late adjustments are processed with enough time allowed for an appropriate level of review, as processing adjustments to the financial statements in the end stages is fraught with danger.

3. Regularly communicate with stakeholders to avoid surprises
Keeping the audit committee, regional/divisional teams and other stakeholder groups informed through regular communication (e.g. weekly or fortnightly updates) promotes a ‘no surprises’ approach to reporting. It provides a two-way communication channel to receive prompt feedback as issues emerge and are addressed. This is important to sound out views when new issues arise and inevitably, when delays occur in some tasks (in practice, this is an accepted fact of life that must be managed).

4. Roll forward of the ‘hard close’
If you have undertaken a detailed hard close, the actual year-end process should be focused on rolling forward the results of the last month and implementing the key decisions made. This should streamline both the month-end and year-end process so that the books can be closed off and all the numbers can be locked down. This will then allow more time for finance teams to analyse and interpret the numbers so that senior management can understand their meaning.

5. Early engagement of senior management
The earlier a draft of the annual report and financials is provided to the CEO and board, the better. Dealing with board and management queries the night before releasing results and making adjustments late in the process without appropriate levels of review may lead to embarrassing errors. Don’t be too concerned if some notes are outstanding when early drafts are distributed for review. An early draft that is 95% complete is better than a draft that is distributed for review too late.

Don’t forget...

- Focus on the end outcome, certain procedures will be dependent on the completion of others
- Be flexible and willing to adapt, some aspects of the plan may need to change
- Prioritise tasks appropriately, for example, ensuring other teams are not held up, especially when there are different time zones to consider
- Don’t forget the forecasting, results will often be accompanied by expectations for the future period
- Ensure that a checklist is used for all financial statement cross references
- Circulate the financials widely for review and ensure ‘fresh eyes’ are sought for assistance
- Be mindful of and ensure that the team understand that the financial result is market sensitive information
- Ensure there is a clear process for approving late adjustments
- Keep a running list of unadjusted errors throughout the process
- Ensure that other public information such as the Chairman’s address are checked for consistency of information.
Debrief
The post year-end period is defined as that point in time where the company’s annual report has been signed and the results have been released. The finance team has given its best performance and you should feel relieved. It’s time to stand back, take a deep breath but remain ‘on stage’ to ensure that improvement opportunities are identified and lessons learned.

1. Stakeholder debrief
The regular contact with your stakeholder group(s) may have helped to create a stronger relationship. It’s important to maintain the momentum by conducting a debrief session with each to discuss the good and bad points of the year-end process. The debrief can help to identify improvements to be made when planning for the next reporting period. Conducting an early debrief (e.g. within 1 – 2 months after sign-off) is more time critical for those listed entities with half year reporting where a scaled down process will occur again shortly around the release of the interim results.

2. Carry forward issues
For those unresolved issues that will be carried forward, work should continue to bring them to a final resolution (if possible, in time for the next reporting period). Alternatively, the issues should be monitored regularly so that they remain within the risk management parameters that have been set. While it may not be a reality to resolve all issues, it is possible to manage them effectively and minimise their impact on the year-end process by keeping on top of them in this post period as a lead into next year’s preparation.

3. System integration and reporting changes
It seems that each year the company annual report contains new disclosures and additional information requirements. These need to be assessed for the permanency in the annual report, and if so, they should be incorporated into the year-end process and monthly process (if applicable) to ensure they become business as usual.

4. Follow up on the detail
Once the company annual report is released, there may still be the need to close out the accounts for subsidiary entities. It is at this stage that it becomes important to identify whether you have any unadjusted errors at the group level that need to be booked for the subsidiary accounts. However, perhaps the most significant post year-end events (often reserved for the CEO and CFO) are the roadshow investor relations presentations and the AGM. A considerable amount of work is required to host these and often finance teams need to prepare Q&A responses to difficult questions for astute shareholders to understand.

5. Resourcing and training requirements
Part of the debrief should identify areas during the period end where technical knowledge was lacking. These areas should be built into the training strategy for the next period end. Consider the weakest member of your finance team and whether there are training or recruitment needs to be addressed. You should also look into late adjustments, unadjusted errors and deadlines missed. Sharing knowledge and dealing with concentrations of knowledge should be a continual process, especially where there is an expectation of turnover or promotion.

Don’t forget...
- Don’t forget about completing the income tax returns for each legal entity or as part of a tax consolidated group
- Get your tax team involved early
- Check the information in the analyst packs, media releases and other information for consistency with the annual report
- Ensure there are team members set aside to review the printer’s proof
- Ensure that issues and opportunities for improvement are noted along the way for actioning post year-end
- Supporting workpapers should be reviewed as late adjustments will be difficult to explain the next period if final referencing has not been completed

The reporting manager needs to keep track of progress against the plan and be ready to respond as and when deadlines and deliverables start to slip.

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**Investor relations**

Many large listed companies have sophisticated investor relations (IR) functions with specialist staff and resources dedicated to the function. This Business Insight is directed to those smaller companies where IR falls primarily on the chief financial officer (CFO).

In very basic terms, IR is about informing the broader investment community or stakeholders about the strategy and performance of your company and providing them with enough information to make informed investment / business decisions.

A key element of a company’s future success is based on the willingness of the various stakeholders to continue to support it. Traditional stakeholders include customers, suppliers, shareholders and employees. However, longer term success requires appreciation of the relationship of the company with a broader stakeholder group. This includes:

- Governments
- Regulators
- Media
- Labour unions
- Bankers
- Rating agencies
- Share analysts
- Debt analysts
- Environmental analysts
- Non-government organisations
- Not-for-profit sector
- Community organisations
- The wider community.

This broad stakeholder base makes IR increasingly difficult as the information needs of these different groups can vary significantly and may change over time. These changes may result from a shift in the relative mix of your shareholders or shifts in public policy or society norms. The trend is towards reporting more information including longer-term performance and broader business issues, such as sustainability.

Ensure the ASX listing rules are followed on continuous disclosure and equal access to information (asxgroup.com.au/asx-listing-rules-guidance-notes-and-waivers). Use guidance available from the relevant industry bodies including the Australasian Investor Relations Association (aira.org) and the Institute.

2. **Be clear about the message you are communicating**

Consider what your key messages are and then ensure they are communicated clearly. For example, is it a growth story, a cost story, a strategic play or quality improvement and how are you going to do this. Most importantly, you should identify how you will show investors in the future that you have achieved your aims. For example, market share of X%, unit cost reduced by Y%, access to a market such that it contributes X% to total sales, reject “rate reduced to Z%. Once these measures have been declared and clearly defined, they must be reported against in the next period.

**Avoiding the topic in the future, because it is bad news, will be viewed with considerable suspicion and potential loss of value.**

3. **Present consistent data to that reported to the Board**

It is usual for analysts to use similar data to that presented to the Board, so unless it is competitively sensitive, release it to them. Analysts are particularly looking for key drivers so they can draw their own conclusions about the outlook for the driver and its affect on future performance.

It is recommended that data destined for reporting to the market is reported to the Board each month. If management and the Board are reviewing the data monthly, then it is likely to have higher integrity than data produced just once a year.

**This Business Insight is accompanied by a factsheet with information on the rules and governance matters relating to IR.**

**Twelve tips for achieving effective communication with investors**

1. Follow the rules and use available guidance
4. Present data that is easy to analyse
Present the data in a consistent format to other data reported and to previous presentations. The form of reporting needs to be consistent with what analysts use and understand. Financial reports are based on an annual reporting cycle with the half-year reports comparing to the prior corresponding period. Analysts review your data based on your reporting cycle, which is mostly half yearly. They will compare first half this year (1H) to second half last year (2H) and are usually only interested in comparing to 1H last year if your business is seasonally driven.

5. The context of market guidance is constantly evolving
Market guidance on future results is the hardest of all areas. Conservative Boards prefer to err on the side of caution which is to ‘low ball’ or issue no guidance. However, there is an expectation under the continuous disclosure rules for significant variations that market expectations be updated even where no guidance was originally given. It is always better to proactively deal with this issue on your terms when the Board has time to consider the forecast rather than reacting to an enquiry, which may not be on your terms.

6. Don’t avoid the hard questions
A confident and proactive IR stance would advise the analyst that you are not in a position to disclose that information however, you will evaluate disclosure of it in future market communications. It is helpful to write down the questions you get asked if you have not disclosed relevant information. You can then consider including these disclosures in your future presentations.

7. Prepare expected questions and answers
When preparing for a market communication, particularly face to face communication, draft some expected questions with answers. This will ensure your answers are consistent and more importantly, if the answer is not already dealt with in your presentation you can include it. Additionally, prepare standard responses to questions that you will not answer.

8. Deal with mistakes promptly
Remember that analysts (like journalists) are experts in asking questions in order to extract what may initially seem like innocuous information. Gathering and interpreting market intelligence is their job and it is easy to make an inadvertent disclosure. If you make a mistake, remedy it by promptly making a disclosure to the market. This could be done by releasing the investor presentation to the ASX website after amending for the inadvertent disclosure. This should be done before the presentation is delivered as opposed to after. Any additional information should be released to the ASX as soon as possible after any inadvertent release.

9. Communicating during sensitive periods
There are times when communications with shareholders are particularly sensitive and are better to be restrained, such as between the year-end and the results announcement or during a significant contract negotiation period. However, it is difficult not to answer the phone and talk to your shareholders. It is recommended that the company’s policy deal with these circumstances and that a shortlist of general topics that could be discussed during blackout periods, such as consumer confidence, business investment and interest rates etc. is prepared.

10. Keep up to date with technology changes
IR is set to see dramatic changes over the next couple of years driven by recognition of a greater number of stakeholders through sustainability and forms of communication such as Facebook and Twitter. It is important for CFOs to remain up to date on developments in this area and proactively assess the value of them to their organisation. Best practice IR is about getting the right mix of communication.

11. Don’t re-invent the wheel
Most large companies have investor relations sections on their websites where you can read their policies, presentations and approach to IR. Select a company you admire, or even better, that the IR community admires, and use that as a starting point for your policies (respecting copyright of course).

12. Allocate resources to IR
Resource the IR function properly even if it is simply allocating diary time to the function. If you are a time-poor CFO, don’t make it worse by losing control of an IR issue. Many CFOs have found that the time they spend communicating with shareholders has increased in recent years.
Investor relations factsheet

Many large listed companies have sophisticated Investor Relations (IR) functions with specialist staff and resources dedicated to the function. This factsheet covers the rules and governance matters which influence IR.

The Rules

Continuous disclosure
For companies listed on the Australian Securities Exchange (ASX), the ASX Listing Rule 3.1 states that:

‘Once an entity is or becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity’s securities, the entity must immediately tell ASX that information.’

There are exceptions to this rule if it is a breach of a law, if the information is confidential or incomplete. ASX Guidance Note 8 (section 4.16) states that disclosure must be made to the ASX first:

‘...an entity must not disclose information that is for release to the market until it has given the information to the ASX and received an acknowledgment from the ASX that the information has been released to the market. This includes the release of information to the media, even on an embargoed basis. The ASX does not recognise embargoes.’

Sections 674-7 of the Corporations Act 2001 also covers continuous disclosure. Section 674 requires a listed disclosing entity to disclose in accordance with listing rules. Section 675 deals with unlisted disclosing entities. Australian Securities and Investments Commission’s (ASIC) regulatory guide 198 Unlisted disclosing entities: Continuous disclosing entities: Continuous disclosure obligations, includes recommendations for unlisted disclosing entities.

Structured disclosure
The Listing Rules also require regular periodic financial reports. The Corporations Act requires certain companies to prepare half year and annual reports, and accounts. There may also be prospectuses, information statements and target and bidders’ statements. Smaller companies may find that the best time to undertake an IR update is in conjunction with the half and full year results announcements.

Equal access to information

ASX Listing Rule 3.13.3:

‘The entity must tell ASX...the contents of any prepared announcement (including any prepared address by the chairperson) that will be delivered at a meeting of security holders. A copy must be given to the ASX no later than the start of the meeting.’

Policies and procedures
ASIC regulatory guide 62 – Better disclosure for investors – has the following 10 principles:

1. Establish written policies and procedures for better information disclosure.
2. Use technology to give investors better access to your information. Post price sensitive information on company website when it is disclosed to the market.
3. Nominate a person to be responsible for ensuring continuous disclosure requirements are met, overseeing disclosure of information and training staff and directors (in small companies this is likely to be the company secretary).
4. Authorise the minimum number of company spokespeople possible.
5. The senior officer responsible for disclosures should be informed of information disclosures in advance of meetings.
6. Release price sensitive information through the stock exchange before disclosing to analysts and others outside the company.
7. Develop procedures to respond to market rumours, leaks and unexpected disclosures.
8. Have a procedure for reviewing analyst discussions afterwards to check for any inadvertent disclosure.
9. Be careful when handling analyst questions outside the scope of the discussion, develop some ground rules.
10. Keep comments on analyst projections to errors in factual information and underlying assumptions. Avoid responses which may indicate the company’s or market’s current expectations are incorrect.

These 10 principles are further supported in ASX Guidance Note 8 with additional commentary on each of them.

We also refer members to the recently published, AIRA Issues Paper: The What, When and Where of Consensus Estimates for Listed Entities in Australia by Australasian Investor Relations Association (AIRA). This paper initially discusses the ASX listing rule on continuous disclosure and its impact on earnings forecasts and consensus. The second part of the paper contains an examination of the current market practices for companies in Australia and looks at the issues associated with the calculation of consensus forecast by analysts and the media.

Sources of Information/Reference

Institute of Chartered Accountants in Australia
charteredaccountants.com.au

Australasian Investor Relations Association (AIRA)
aira.org.au

Australian Securities Exchange (ASX)
asx.com.au

Australian Securities and Investments Commission (ASIC)
asic.gov.au/rg
Performance targets without budgets

Businesses need performance targets to ensure that managers know what is expected of them so the Board and executives can hold them accountable. Fixed annual financial and non-financial budget targets can be inappropriate in today’s fast-changing world as the assumptions on which they are based change quickly. Businesses need a different type of target that adjusts automatically to changing economic and other conditions, and drives businesses to maximise their performance at all times.

Relative targets are one way to achieve this and have other significant advantages over annual budget targets.

**Relative targets**

In a capitalist or mixed economy, businesses compete against each other so, naturally, the best-performing are the most highly regarded. A business’ performance may appear to be good when compared with an internally generated target, but not when assessed against other comparable businesses’ performance. Simply put, relative targets are the results of other comparable businesses.

**Components of relative targets**

The components of relative targets that businesses must determine are:

- **Key performance indicators (KPIs):** these KPIs (for which relative targets are required) should not just be financial but across a scorecard of measures, classically from customer, efficiency, innovation and financial perspectives. Not surprisingly, businesses in the same industry tend to use the same core KPIs to measure performance, making comparison more feasible.

- **Comparable businesses:** these are businesses that are impacted by the same economic, political, technological and social influences. Comparable businesses can be both external and internal.

  Externally, comparator businesses are likely to be competitors but for efficiency and innovation KPIs, there may be additional, non-competing businesses in the same industry, perhaps overseas. For example, Australian retailers and train operators do not compete with those overseas, so while comparing financial performance may not be valid due to differences in their respective economies, efficiency and innovation KPIs are still comparable.

  Internally, comparators can be other business units such as stores, sales offices and factories. Many businesses already rank the performance of their business units in this way.

  **Sources of data:** it is useful to benchmark your business across a range of comparators, especially as it can sometimes be difficult to obtain data from individual businesses.

  Sources include industry associations, independent research (e.g. in the banking industry) and the Australian Bureau of Statistics. Some data may also be obtainable from comparators’ annual and half-yearly reports and elsewhere (especially if they are listed companies).

  Many businesses already collect data about their competitors so relative performance targets can be formalised from that data. Non-competing businesses in the same industry may also see advantage in swapping performance data for mutual benefit.

Fixed annual financial and non-financial budget targets can be inappropriate in today’s fast-changing world as the assumptions on which they are based change quickly. Businesses need a different type of target that adjusts automatically to changing economic and other conditions, and drives businesses to maximise their performance at all times.
Advantages of relative targets
The advantages of relative targets compared with fixed annual budget targets include:

- **Driving businesses to maximise their performance at all times, whatever the circumstances**: Comparators’ performances are not known until after the financial year, assuming co-terminus year-ends or comparable periods, so the business is encouraged to perform at its best to try to beat the unknown performance of its comparators. Whether times are favourable or not, the business must work hard to maximise its performance and benchmark well against its comparators.

- **Adjusting automatically to changing economic, political, technological and other circumstances**: Assuming the comparators have been chosen well, relative targets do not have to be reset every year, as changes in the business environment impact the comparators too. However, it is necessary to review the comparators selected from time to time for appropriateness.

- **Being used as a basis for incentive payments**: Given the sometimes contentious nature of management bonuses, it is easier to argue the case for incentive payments if the benchmark is performance against external comparators rather than an internally generated target. This applies in favourable and unfavourable times so that superior relative performance can be rewarded whatever the absolute performance. Some listed entities currently link a proportion of their incentive payments to the Total Shareholder Return of the business compared to a specific index.

- **Forcing the business to look externally at its comparators**: While many managers are not completely internally focused, regrettably some are. Benchmarking against external comparators automatically focuses some attention outside the business. This can facilitate innovation and more efficient practices.

- **Practicalities of relative targets**: As indicated above, relative targets are not perfect. No comparator is exact. Changes in the business environment may impact to different extents and KPIs may be calculated slightly differently across the industry. The content of performance reports must also be considered.

- **Different calculation of nominally the same KPIs**: Differences can result from KPIs being calculated differently in businesses or from KPIs being ‘tainted’. For example, a business segment in one company may contain elements of another business.

- **Imperfect comparators**: Businesses are never perfectly comparable with one another and therefore some tolerance may be required. For example, differences in business size, customer markets and the product or service specifics may require adjustments to make the data acceptably comparable.

- **Changes in the environment can impact differently**: For example, in different Australian states, changes in general economic conditions, legislation or extreme weather events may impact one business more than another.

- **Monthly performance reporting**: Most businesses compare actual monthly performance against a target. Monthly data is unlikely to be available in time for monthly reporting for at least some, perhaps all, relative targets. Alternative ways of assessing monthly performance are therefore required. Examples include graphing performance and KPIs over a ‘rolling’ 12 month period, historically and forecast, and comparing with the previous year.

These issues are often easier and quicker to overcome than persisting with an annual budgeting process.

Implementing
As with all important new initiatives, implementing relative targets must be carefully planned. Managers at all levels, directors and the finance team must be convinced that relative targets are superior to fixed annual budget targets for their business. Many managers and directors are naturally cautious when suggestions are made for changing the basis of assessing business performance and incentive pay.

While each business will implement relative targets differently, generically the following must be determined:

- KPIs, for which relative targets can be obtained
- Comparable businesses, externally, internally, domestically and internationally
- The sources of data which must be practical
- Monthly performance reporting.
Fringe Benefits Tax for entertainment

Fringe benefits tax (FBT) arises when the employer provides certain benefits to employees. The benefit is provided to someone because they are an employee, or an associate of an employee.

This Business Insight focuses on explaining entertainment fringe benefits and their applicability, as per the table below.

### Entertainment Indicators

In order to determine when food or drink provided to a person results in entertainment, the circumstances surrounding the provision of food or drink must be examined.

<table>
<thead>
<tr>
<th>A</th>
<th>Why is the food or drink being provided?</th>
</tr>
</thead>
<tbody>
<tr>
<td>This is a purpose test. For example, food or drink provided for the purposes of refreshment does not generally have the character of entertainment, whereas food or drink provided in a social situation, where the purpose of the function is for employees to enjoy themselves, has the character of entertainment.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>B</th>
<th>What food or drink is being provided?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morning and afternoon teas and light meals are generally not considered to be entertainment. However, as light meals become more elaborate, they take on more of the characteristics of entertainment. The reason for this is that the more elaborate a meal, it becomes more likely that entertainment arises from consuming the meal.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C</th>
<th>When is the food or drink being provided?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food or drink provided during work time, during overtime or while an employee is travelling is less likely to be entertainment. This is because in the majority of these cases, food provided is for a work-related purpose rather than an entertainment purpose. This, however, depends on whether the entertainment of the person is the expected outcome of the food or drink. For example, a staff social function held during work time still has the character of entertainment.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>D</th>
<th>Where is the food or drink being provided?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food or drink provided on the employer’s business premises or at the usual place of work of the employee is less likely to have the character of entertainment. However, food or drink provided in a function room, hotel, restaurant, café, coffee shop, or consumed with other forms of entertainment, is more likely to have the character of entertainment. This is because the provision of food or drink is less likely to have a work-related purpose.</td>
<td></td>
</tr>
</tbody>
</table>
If you provide food or drink that is entertainment, then you need to consider whether any of the following apply. It should be noted that the treatment of entertainment benefits for FBT purposes are different for tax exempt entities.

**Exemptions**

Food and drink consumed on the business premises on a working day is exempt from FBT, regardless of whether entertainment was involved or where the food was prepared. However, there are some exceptions to this rule. For example, food and/or drink provided on business premises to associates of employees (e.g. spouses) is not exempt from FBT. Where you provide food and/or drink on the same occasion to both employees and their associates, may have to apportion the expenditure on a per-head basis. However, where the value of the benefit to the employee is less than $300, it may meet the criteria for a minor benefit exemption.

**Minor Benefit Exemption**

An employee benefit which has a value of less than $300 may be a minor benefit. Where the employer provides an employee with separate benefits that are in connection with each other, for example, a meal, a night of accommodation and taxi travel, each individual benefit provided to the employee must be considered to determine if the value of each benefit is less than $300. If the value of a benefit is less than $300, it must be determined whether it would be unreasonable to treat the minor benefit as a fringe benefit. The value, frequency and regularity of the provision, together with recording and valuation difficulties, should be considered before concluding if a minor benefit exemption is applicable. Staff gifts less than $300 for birthdays, rewards for performance, periods of service, weddings, and farewells would all be considered minor benefits.

**Value**

The taxable value of entertainment is calculated using the respective valuation rules according to whether the benefit is an expense payment, property or residual fringe benefit. Where you provide recreational entertainment by hiring or leasing entertainment facilities, and the benefit is a residual fringe benefit, you may elect to use the 50/50 split method.

**Keep appropriate records**

You should record information relating to entertainment so that the taxable value of the fringe benefit can be calculated. You should record:

- The date you provided the entertainment
- Who is the recipient of the entertainment (are they an employee, associate of the employee or another person?)
- The cost of the entertainment
- The kind of entertainment provided
- Where the entertainment is provided.

**Payroll Tax**

Payroll tax is incurred on the majority of expenses that attract FBT in relation to Australian resident employees, as these are considered a benefit to the employees in addition to their salary. Genuine reimbursements of work related expenses are excluded.
Reportable fringe benefits

Where the value of certain fringe benefits exceeds $2,000 in an FBT year (1 April to 31 March), the employer must record the grossed-up taxable value of those benefits on the employee’s income tax payment summary. Entertainment provided by way of food or drink, and benefits associated with that entertainment, such as travel and accommodation (regardless of which category is used to value the benefit) are excluded benefits for reporting purposes. Expenses associated with hiring or leasing entertainment facilities are also excluded for reporting purposes. Other types of recreational entertainment, such as theatre tickets, are subject to the reporting requirements.

Reducing FBT expense

The amount of FBT can be reduced by:

- Replacing fringe benefits with cash salary or allowance
- Providing benefits that employees would be entitled to claim as an income tax deduction if they had paid for the benefits themselves (the ‘otherwise deductible’ rule which reduces the taxable value to nil)
- Providing benefits that are exempt from FBT
- Using employee contributions. Generally, the contribution is a cash payment made by the employee to the employer towards the benefit. For example, the employer offers employees tickets to a sporting event for $20 each that have a cost price of $50. An employee can also make an employee contribution towards a car fringe benefit by paying for some of the operating costs (such as fuel) that are not reimbursed.

Entertainment indicators

- Staff entertaining expenses which attract FBT should be grossed-up in the general ledger to factor in the FBT cost. Employers will be liable for the FBT in addition to the value of the expense. These expenses are deductible for income tax purposes.
- Client entertaining expenses and some types of FBT exempt entertainment (e.g. a staff Christmas party held at a hotel costing less than $300 per head) will not need to be grossed-up for FBT cost. However, it is important to remember that these entertainment expenses will not be deductible for income tax purposes.
- The table available on the ATO website is a useful template in assessing whether FBT is applicable to entertainment. It is also a very practical tool for educating key stakeholders within your business regarding FBT applicability. If attending a conference of over four hours, the costs of dinners during or immediately before, or after the conference is considered to be incidental to attending the conference and should not be subject to FBT.
- If a spouse accompanies an employee on a conference or business trip, accommodation costs should be able to be allocated to the employee as a travel of business cost and there should not be a need to allocate some of the cost to the spouse provided that there is no incremental cost incurred for the spouse.
- It may be cost effective to provide employees with an allowance when travelling rather than reimburse or incur the costs directly. Where allowances are provided within the ATO’s published guidelines, the allowances will not be taxable and will not require documentation.

Chart of accounts

What are the key points to consider in designing a chart of accounts (COA)? This Business Insight will assist finance teams who are creating a new COA within new systems, as well as those reviewing their existing COA in order to rationalise and simplify. There are four key stages in the process that will be discussed below. Additionally, potential pitfalls to avoid and additional guidance are provided from those who have recently gone through this process to allow members to benefit from their experiences.

1. Purpose
The first stage is to define the purpose of the COA. While the COA provides the structure for the recording of financial information, it is important to consider the following:
- Who will use the COA?
- For what purpose will the COA be used?
- What are the users’ information requirements?
This will help ensure that the COA is set up in a logical manner and is efficient in meeting the needs of users. It may be helpful to obtain input from the key stakeholders within the organisation. It is important to consider the different reporting needs of the COA such as statutory accounting, board reporting, tax, treasury and regulatory requirements. Once the purpose is defined and agreed upon by the key stakeholders, this should be captured in a policy document as the guiding principles underpinning the COA.

Remember to consider the system capabilities when defining the purpose of the COA and the sources of data that interface with the COA. It should also be noted that the COA does not have to be solely a statutory reporting or record keeping tool – it can be a powerful tool to aid analysis and decision making in a business.

2. Structure
In defining the structure of the COA, it is best to start with the high level balance sheet and profit & loss account. This can then be broken down into sub-components. The sub-components could provide the statutory view or the management view, (depending on the defined purpose for the COA), the results of the stakeholder review and the business requirements.

Some critical items to consider when defining the structure of the COA include:
- The accuracy/reliability of the data feeding into the COA
- The level of detail incorporated in the COA. This often bears an inverse relationship to the accuracy of data captured – the more elements, the greater possibility of erroneous classification.

3. Elements
The next stage is to define the different elements of the COA or the codesets. The elements will vary depending on the system in question. This is where the structure of the COA starts to take shape. Examples of COA elements could be:
- General ledger account
- Country/location codes
- Activity codes
- Business type
- Cost centres
- Company codes
- Source codes.

This is important because it helps maintain the structure of the COA as well as ensure that the reporting needs defined in the purpose can be met. It is important to have clear protocols for the different elements to enable consistency and integrity across the COA.

Review of existing chart of accounts
- Allocate sufficient resources
- Complete in phases
- Select subset for focus
- Check against policy and rules
- Identify accounts not in line with the new structure and policy
- Question why each account is needed
- Take appropriate action – close the account, relabel or update policy depending on conclusion.

Structural approach

1. Define
2. Measure
3. Analyse
4. Design
5. Implement
6. Control process
**Pitfalls**

Don’t react to the “squeaky wheel”, where a specific request from a person to set up an account is accommodated without good reason. Establish a quorum to create new accounts. The owner should have final say on changes. When a new account is requested, consider the following:

- Is the account needed?
- Do different systems capture the information already?

Should they be integrated or is it acceptable for the information to remain outside the COA?

Avoid duplication of data in GL or consolidation tool that is available in another system. There should be one source of information and therefore one version of the truth.

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**Contributors**

This Business Insight has been prepared by the Vic Corporate Advisory Panel, with thanks to:

- Mark Ellul CA
- John Turner CA
- Susan Cartwright CA
- Carolyn Hindhaugh CA

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**4. Governance**

Governance is a key aspect of the COA. Once a new COA is created or an existing one reviewed, maintaining the structure requires appropriate controls and processes to be in place. Centralised governance is important, with one person responsible for the ownership and maintenance of the COA.

A policy and process document should be created for the management of the COA. This document should be reviewed periodically to ensure it meets the business requirements as these may change. Continual governance and focus on the COA are critical to ensure that the COA remains relevant and meets the business needs.

**Policy/Process document considerations:**

- Document the purpose, elements and structure of the COA
- Determine materiality thresholds for account creation
- Identify an owner of the COA
- Authorise a list of approvers for account creation and deactivation
- Use standard forms and/or templates for account creation and deactivation.

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**Tips and guidance**

1. **Forward thinking:** account creating needs to be forward thinking to accommodate new accounting standards, tax legislation or reporting requirements. Accounts may need to be created in advance to allow for the collection of data for comparative disclosures. Changes to statutory reporting are often the responsibility of one team and therefore that team may be best placed to be responsible for COA maintenance.

2. **Different needs:** the COA design may need to accommodate the needs of different business units or industry areas. Some accounts used by different business units may have a similar title but the actual use of the account could be based on a different concept. It is therefore important that these are separated as needed within the COA. It is recommended that sign-off is obtained from the key stakeholders on the structure definition to ensure all the business requirements have been met.

3. **Documentation:** the policy document, summary COA and other relevant documentation must be kept up-to-date and be readily available to all relevant stakeholders. To avoid this important aspect being overlooked, the person responsible for maintenance of the documentation must be clearly identified.

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**4. Mappings:** any mappings from the General Ledger to the consolidation tool should be clearly defined and the policy consistently applied to all GLs.

**5. Training and awareness of the COA, account definitions and policy is important:** training may be appropriate to ensure that users record amounts in the correct account. A summary user guide can assist with ongoing understanding and consistent use of the COA.

**6. Collection of data:** designing a new COA can enable the collection of data which otherwise may have been dealt with manually. For example, this could include the separation of tax deductible and non-deductible expenses.

**7. Ongoing maintenance:** COAs often expand and evolve over time for perceived efficiency, however it is important that the structure is maintained to ensure integrity in each element of the COA and that it remains relevant and useful to all users. Business rules should be established for account creation to ensure definition and structure is maintained.

**8. Obsolete accounts should be blocked:** as part of the ongoing review, when accounts are identified which are now obsolete and outside the current policy, they should be blocked in the system if possible to prevent accidental postings to the account. If it is not possible to block the account, then it should be regularly checked for erroneous postings.

**9. Flexibility in numbering is important and should enable easy expansion:** the COA needs to be efficient and user friendly. The COA structure needs to be flexible to accommodate business changes.

**10. Mergers and acquisitions:** it is important to carefully consider new accounts that may be required as the result of a new business joining the organisation. The new business may have a different set of accounts which would need to be accommodated in the COA.
Rolling forecasts

Business managers need the best information available when making decisions. While having information about actual business performance is essential, historic information is not necessarily a good indicator of future performance. It is therefore important to provide management with forward looking information, including forecasts of financial performance.

This Business Insight explains ‘rolling’ financial forecasts (i.e. forecasts that look ahead on a ‘rolling’ time horizon), their preparation and use.

**Benefits of rolling forecasts**

Rolling forecasts allow businesses to regularly monitor their expected performance compared to their target over the forecast period. They also enable management decision making to be unconstrained by financial year ends. Decisions affecting the medium term can therefore be made at any time based on rigorous forecast information.

**Component features of rolling forecasts**

**The ‘rolling’ time horizon**

Managers need forecasts that look ahead as far as possible with reasonable accuracy, irrespective of when they are prepared and when the financial year ends. The forecast horizon differs depending on how fast the industry and the business change (generally, the faster the change, the shorter the horizon) and the forecasting ability of the business.

In addition to being useful for decision making, forecasts with a time horizon of more than one year provide an early view of the upcoming financial year which can be useful for setting expectations for directors, shareholders and financial markets.

**Level of detail and speed of preparation**

As forecasts are inherently uncertain predictions about the future, attempts to prepare precisely accurate forecasts are pointless. Materially accurate forecasts that are prepared quickly are of most use to businesses.

**Update frequency**

Forecasts are based on assumptions that can date rapidly in today’s fast-changing world. Examples of assumptions that can materially impact forecasts include exchange and interest rates, the weather, price and input cost volatility and the aggregate level of demand. Therefore, it is necessary to update forecasts regularly, depending on how quickly the assumptions on which they are based become dated or the business environment changes materially. Generally, the faster the industry changes, the more frequently forecast updates are needed.

**Preparing rolling forecasts**

Each business should determine its own forecasting processes which will differ to some degree from that of every other business. Common features of good forecasting processes include:

- Concise, clear instructions and assumptions centrally provided by the corporate head office, to use when preparing forecasts for consistency and clarity, (e.g. exchange rates and wage increases). It is important that forecasts are ‘owned’ by business managers, with the finance team ensuring rigour in the data and facilitating the forecast preparation process.
- Concise analysis, including any key ‘local’ assumptions made so readers can properly understand the forecasts.

**Forecasting promotes business understanding and enhances management decision making**

To prepare accurate forecasts requires a good understanding of the business, its competitors, customers, suppliers and the industry generally. This includes, for example, technological and political developments. Therefore, forecasting promotes business understanding and enhances management decision making. Linking managers’ remuneration to the accuracy of their forecasts encourages them to take forecasting seriously and promotes forecasting accuracy.

**Using forecasts**

**Business decisions**

The prime purpose of preparing forecasts is to assist in management decision making. Forecasts that are reported to management seamlessly with historic financial and business results provide managers with more powerful
**Impact of business decisions:**

- **Tactical actions** – relatively minor adjustments to business actions that occur frequently.
- **Business plans** – when it is clear that a plan needs to be changed in order to achieve the desired outcomes.
- **Business strategies** – when it is clear that a strategy is no longer appropriate. Strategies are likely to be changed even less frequently than business plans but, for similar reasons, the business should be able to do so whenever necessary.

Forecasts are used as an input to management decisions to assist, among other things, in achieving targets, including incentive remuneration targets. When the business is assessed relative to its competitors or comparable others rolling forecasts can be especially useful in enabling the business to respond rapidly to unexpected developments as they are quick to prepare and unconstrained by financial years*.

Good governance requires that changes to business plans and strategies have Board approval and appropriate communication around the business, so such changes should not be undertaken lightly.

**Learning from mistakes**

Mistakes made in forecasts can indicate changes that are occurring in the industry and the business. If actual results differ materially from those forecast it may be that a long-established rule of thumb is changing, that there is unexpected competitor activity or that fashions are changing. Analysing the reasons for inaccurate forecasting is important and is enabled by understanding the main business drivers, fixed costs and rules of thumb on which forecasts are based.

**Techniques for preparing forecasts quickly**

- **Main business drivers**, which determine the main items of income and expense. A common business driver is volume, such as sales and production volumes which drive revenue and direct variable costs.
- **Fixed costs**, when they are significant. Although there are additions to them and deletions from them periodically, by definition, being fixed makes them relatively easy to forecast accurately.
- **Rules of thumb**, which are broad, simple relationships between two or more numbers. For example, between the rate of population growth and demand for housing and the time lag between building approvals and orders being placed for building materials.

**Conclusion**

In a fast-changing world in which past trends often do not indicate future performance, rolling forecasts are an important management tool. Preparing forecasts accurately requires skill, business understanding and focus on what really matters.

Typical time horizons for rolling forecasts are between 12 and 24 months.

*See Business Insight on Relative Targets: Performance targets without budgets.
Software capitalisation policy

This Business Insight looks at the key points to consider when developing a software capitalisation policy. Policy specifics will vary depending on the size of the organisation and type of software development activity undertaken.

Software capitalisation occurs when some of the costs of internal software developments are recognised as having economic value that will extend into the future (i.e. will have future economic benefit). Where certain criteria are met, the cost of software development can be taken up as an asset to be amortised over its useful life.

Impairment testing
At the end of each reporting period, the net carrying value of unamortised software costs is subject to trigger testing. If the triggers are present, an impairment test is performed. Impairment testing is a review of the value to be produced by the software during its remaining useful life in order to confirm existence of any impairment (which would lead to the write down of the carrying value).

Australian Accounting Standards specify that an intangible asset shall be recognised if, and only if:

a) It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity.
b) The cost of the asset can be measured reliably.

Consideration should be given to the design of the impairment trigger testing that will be applied. This should be sought to leverage existing reporting mechanisms wherever possible, which may include a robust project status reporting mechanism.

Application of software capitalisation
Application of software capitalisation often depends on the judgement of the individual and organisation applying it, and will vary depending on the policies of each company. For example, internal limits may be set so projects with budgets below the limit are expensed, with such limits often aligned with financial delegations and governance structures. For practical purposes small developments are often regarded as part of infrastructure maintenance that is necessary for the ongoing effective operation of systems, and are expensed as incurred. Any immaterial software items are usually expensed immediately.

The overarching principle is that software capitalisation is subject to criteria within the Accounting Standards, the interpretation of which will guide internal policy. The Accounting Standards specify which costs of an internally generated intangible asset can be capitalised. There are examples included of what are normally considered components of the intangible asset.

Governance
Strong governance is critical to retain integrity in financial reporting, including systems for tracking of costs and benefits. Decisions must be made in determining what can be capitalised, the time period for amortisation, (the longer the useful life the higher the risk of impairment given the rapid development of software), and the process and value for impairment purposes.

The Australian Accounting Standards that provide guidance when considering software capitalisation policy are:

- AASB138 – Intangible Assets
- AASB116 – Property Plant & Equipment
- AASB136 – Impairment of Assets

There will usually be differing views as to how those decisions should be applied. This may arise when considering whether judgement should be exercised to maximise the costs capitalised and so defer expenses (subject to impairment), or to minimise the costs capitalised, thereby minimising the risk of impairment. This highlights the importance of a clear software capitalisation policy.

Relevant Costs
When there is a group corporate structure in place and there are recharges between companies comprising the development costs, care must be taken to ensure that any profit margins built in are not capitalised, as these are not part of the costs to the group.
Broadly, only costs related to the development stage are able to be capitalised. The following table illustrates some examples of research and development costs:

<table>
<thead>
<tr>
<th>Research phase</th>
<th>Development phase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activities aimed at obtaining new knowledge</td>
<td>The design, construction and testing of pre-production/pre-use prototypes and models</td>
</tr>
<tr>
<td>The search for, evaluation and final selection of applications of research findings</td>
<td>The design of tools/framework involved in the new technology</td>
</tr>
<tr>
<td>The search for alternatives for materials, devices, products, processes, systems or services</td>
<td>The design, construction and operation of a pilot that is not of a scale economically feasible for commercial production</td>
</tr>
<tr>
<td>The formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.</td>
<td>The design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.</td>
</tr>
</tbody>
</table>

**Important items to consider:**

- Timeliness of capture – recording detail on an ongoing basis is very important
- The approach to capturing expenses for capitalisation – consider the process to identify expenses at the first processing of costs, rather than after the event
- The importance of having ledger systems set up to record expenses by project – this will make data easy to extract
- The coding of the account – this will ensure Project Accounting and Expense reporting needs are met
- The capitalisation of backfill staff – business as usual staff are seconded to development
- The timing of the project’s start – measuring the total project costs is different to the amount capitalised
- The interrelationship with tax effects – deferred tax impact
- Identify any opportunities for Research and Development (R&D) grants
- The tax treatment of software vs. accounting treatment
- Whether the project meets requirement for additional tax R&D benefits.

**Responsibilities**

In breaking out the responsibilities in relation to software capitalisation, the following table provides a suggested split:

<table>
<thead>
<tr>
<th>Finance team</th>
<th>Finance Manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gathering data supporting proposed accounting treatment</td>
<td>Setting the accounting policy and organisations thresholds for software capitalisation</td>
</tr>
<tr>
<td>Developing a detailed understanding of the project to support both capital investment and accounting treatment</td>
<td>Supporting the accounting policy as it requires it</td>
</tr>
<tr>
<td>Assessing software capitalisation requirements and preparing submission on accounting treatment</td>
<td>Approving individual software capitalisation project applications</td>
</tr>
<tr>
<td>Ongoing monitoring of development costs to confirm satisfaction of capitalisation requirements</td>
<td>Obtaining Audit Committee approval and reporting</td>
</tr>
<tr>
<td>Conducting annual testing for impairment assessment.</td>
<td>Providing an overview of the impairment process.</td>
</tr>
</tbody>
</table>
Month-end reporting

This Business Insight focuses on the standard month-end reporting process for large organisations and listed entities. It discusses the scope, timeline, stakeholders, delivery, controls and processes and ways to improve month-end reporting. The aim is to help finance teams unlock the true potential of this important function and augment it to be a mechanism that is engaging, insightful and delivers real value across the organisation.

Scope
The scope of month-end reporting will be different for every organisation. Historically, there has been a ‘financials’ focus on profit and loss (P&L) results, key balance sheet items and cash. Increasingly, best practice encourages incorporating additional strategic measures such as qualitative non-financial key performance indicators (KPIs). In practice though, these measures can be difficult to identify and require a consensus judgment to be made.

Month-end reports should include financial and non-financial measures using focused reporting (for example, in the use of dashboards*) that incorporates trend analysis, meaningful commentary and comparison to one or more relevant benchmarks. In doing so, finance teams can improve the context in which they present their monthly financial results, making it easier for others to fully appreciate the significance of the numbers.

Achieving the right balance between historical reporting and insightful forecasting is often a critical element in building senior management engagement and buy in. Whilst there is no ‘one size fits all’, good practice would suggest a minimum 50/50 split of resources with increasing efforts made to focus on forward looking information, such as rolling forecasts.

Timeline
The timing of month-end is reflective of the organisation’s culture towards the tradeoff between accuracy versus timeliness. Generally, greater accuracy requires more time, whereas a quicker result will require the use of more estimates. Where each company sits along this continuum will be a question they must ask and answer for themselves.

Best practice suggests that month-end reports include an early results forecast before month-end for large organisations; and for all organisations a flash result early after month-end; and an update just prior to the board meeting.

Stakeholders
Defining the audience is critical to defining the types and timing of reports. As a general rule, the higher the level of management, the more succinct the information needs to be; the more operational, the more detailed. With this in mind, there is an increasing need for users to have the ability to ‘drill down’ the high level information to see the detail. This is assisted by technology and/or the right combination of key reports. Furthermore, focusing on the ‘measures that matter’ to each stakeholder group will promote greater relevance to decision making.

Day Event
-10 Results forecast¹
-3 Reaffirm results forecast
0 Month-end
+3 Flash result²
+5 Lock general ledger (GL), announce final results
+6 Analysis and commentary
+8 Distribute board papers
+10 Update prior to board meeting

Day refers to business days, not calendar.

¹ Prepared based on the month-to-date (MTD) ledger, run rates and information gathered from a ‘ring around’ to business units.
² Prepared based on actual MTD ledger results plus known but yet to be processed adjustments often spreadsheet based.

What to include?

Month-end reporting can include:

- Financial measures covering: balance sheet; cash flow; debt covenants; trendline dashboards; ratio analysis; cross sell revenue; sales account growth; staff numbers and market share
- Non-financial measures covering: branding; carbon emissions; community involvement; customer satisfaction; employee engagement levels and regrettable staff turnover
- Relevant benchmarks
  - Internal: current year budget; prior year actual and rolling 12 month forecast
  - External: market trends; industry averages and competitor information (if available).

*See Business Insight on Dashboard Reporting.
Graduated levels of reporting:

**Board**
- High level results in concert with strategic actions and market expectations.

**Senior management**
- Consolidated view of results by segment, region and/or product
- Commentary to explain variances.

**Operational line managers**
- Client/product information
- Specific fees, margins and volumes
- Direct access to source data.

**Other internal**
- Staff satisfaction survey results
- Business unit updates
- Employee performance reviews.

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**Delivery**
Making relevant month-end reports available beyond the confines of a finance team into the broader organisation is important in order to provide key operational senior managers with information which can facilitate decision making.

While these are commonly delivered in either hard or soft copy, this practice can be improved by the use of an intranet portal to present the month-end results in a more dynamic environment. This can enable each user to drill down in key focus areas complementing the growing and evolving information needs of users. Such a system will require a considerable investment in IT resources and while this kind of commitment may be beyond the confines of the current year budget for some smaller organisations, progressive small steps should be made towards improving this process.

**Controls and processes**
The month-end process should be standardised to streamline routine journals, dealing with exceptions as they arise. This should be supported by controls to test the integrity and accuracy of results against benchmark expectations. This may lead to converging functions and developing centres of excellence to ensure consistency, efficiencies and more specialised knowledge.

Discipline in adhering to the month-end timetable and establishing clear cut off dates is important for maintaining a smooth workflow. This will help build transparency to identify and resolve any bottlenecks in the process.

**Ways to improve**
As finance teams look ahead beyond the next month-end, it is an opportune time to continuously improve and challenge the status quo to ensure tasks remain relevant. Often processes are put in place to serve a purpose that is no longer relevant however employees may fall into the habit of simply following what was done last month. Having the finance team reaffirm the relevance and efficiency of month-end tasks should work towards improving the overall quality of reporting.

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**Other insights:**

**Reducing the timeline**
- Use ‘flash’ reporting as a hybrid of actual and measured estimates to provide timely headline results
- Remain in regular contact with business units to ensure a no surprises approach to reporting
- Rely on Day 1 estimates for two months and only complete a hard close every quarter to free up time for more valued analysis.

**Delivery**
- Use secure PDFs to email reports so results cannot be edited unknowingly.

**Control and processes**
- Standardise instructions, templates and standing journals across all business units
- Ensure consolidation entries are only used for that purpose and not to make corrections in underlying business ledgers
- Remember that month-end reporting on operating segment results will impact on external year-end disclosures.

**Suggested improvements**
- When month-end reporting relies on third party processing (e.g. offshoring), ensure alternative processes are in place when inevitable delays occur
- Map out the workflow by clearly identifying those critical tasks to avoid bottlenecks
- Simplify the monthly tax analysis by using the standard 30% corporate tax rate
- Separate reporting of underlying results from their FX impact to highlight volatility
- Track the accuracy of prior month forecasts against actual to review key assumptions.
Effective performance reviews

Performance management and appraisals are a valuable tool for providing and receiving feedback. However, sometimes those involved in the process may feel anxious and uncomfortable. This Business Insight aims to provide an overview of the process, including how to get the best from the process.

Why should you conduct performance reviews?
When done well, performance reviews can be positive and constructive interactions, which allow employees to know where they stand and what they need to do to achieve more. They also motivate people to achieve their potential and to contribute more effectively to their employer.

When should you set up a performance management process?
A performance management process should be set up as soon as an organisation recruits employees. Setting up a formal process can help, even in small organisations, as it overcomes the presumption that everyone knows how they are performing in their jobs. Having a process already set up can also help if an employment relationship deteriorates.

What does performance management include?

a) Setting clear goals and measures:
Senior leaders set goals that are meaningful for their organisation and for the team. Managers then cascade these goals to their direct reports and establish individual objectives that are linked to corporate goals. These goals should be accompanied by measures to assess how well the goals have been achieved. Additionally, some organisations may also look at behaviours and culture as ‘how’ the work is done is often as important as ‘what’ work is done.

b) Prioritising and allocating work:
Managers develop and implement action plans to get work done; they prioritise work and set expectations with employees regarding project tasks.

c) Monitoring performance regularly:
Managers track employee performance on a continuous basis and provide timely and accurate informal feedback and coaching.

d) Assessing employees and providing feedback:
The formal review process includes employee performance evaluation, rating calibration and review delivery by direct managers. Employees use performance feedback to create individual or achievement development plans to improve on specific development areas.

e) Linking rewards to performance:
Employees may receive performance-linked bonuses and pay increases based on the formal review. In addition to monetary rewards, employees should be recognised for their accomplishments throughout the year.

The importance of feedback

89% [of managers surveyed] said that candid feedback is important, but just.....

39% said they had received it..

What are the steps to developing a performance management process?

1. Select a performance management framework
   This can be based on a number of criteria, such as:
   a) Standards based: Evaluation against the standards set for the position
   b) Competency based: Evaluation against behaviours or skills set for the position
   c) Comparison based: Based on whether the employee met the required level. This may also look at the market outside the employer
   d) Forced choice: Requires a choice between two statements of performance.

2. Establish a position description
   The position description should be clearly defined. It would generally include the following elements:
   - Job title
   - Job summary
   - Duties/tasks
   - Employee reporting arrangements
   - Job level descriptor (if these are in the workplace or industry)
   - Minimum qualifications or skills
   - Working place or travel requirements
   - Regular reporting
   - Statutory compliance roles
   - Performance goals.

3. Agree levels of core competence
   It is important to agree on the core competences and the level to be achieved. These might include areas of personal development such as adherence to ethical standards, collaboration and working in teams, negotiation skills, conflict management and cooperation.
   Other skills to be considered include communication, leading, influencing and coaching, problem solving, decision making and technical knowledge.

4. Provide ongoing, informal feedback
   There are a number of ways in which informal feedback can be provided effectively:
   - Be proactive. Address issues early to avoid confusion that can result from delays. Meeting with employees on a monthly or quarterly basis demonstrates to employees their value and the manager’s accessibility
   - Be specific. Give actual examples that illustrate your points
   - Be clear about the changes in behaviour that you expect in a specific time period, and follow up as scheduled
   - Link employees’ performance to organisational goals. Reinforce the value of your employees’ contributions by giving actual examples of how their work and positive behaviours serve the organisation and its customers.

The Basics

Share your thoughts:
Everyone needs to know:
- What’s expected of me?
- How am I doing?
- What do I need to do to grow and get better?

Create a fair process:
- Give feedback
- Help develop/grow
- Link to pay/rewards
- Link to business goals
- Document performance
- Consider promotion or alternatives
- Consider termination.

The cycle:
- Set goals
- Monitor performance (provide informal feedback, coach and counsel)
- Evaluate performance
- Reward performance.

Appraisal Form:
The form is a tool for setting goals, monitoring performance and evaluation. It should reflect:
- What people do (their responsibilities and objectives)
- How they do it (their behaviours and culture).
5. Provide formal feedback
It is important that formal feedback is provided constructively. Below are some suggested methods:

- Focus on business outcomes as they directly relate to the person
- Prepare a standard set of questions or topics
- Prepare and research by asking other managers or key clients
- Focus on specific and observed behaviour
- Ask questions
- For high achievers, find a challenge
- Don’t commit what you can’t deliver
- Ensure you deliver what you commit to.

Examples of flawed feedback include cases when a manager:

- Attacks the person rather than the person’s behaviour (e.g. ‘you are hopeless’)
- Provides vague or abstract assertions (e.g. ‘We can’t trust you’)
- Does not offer illustrations or examples of behaviour
- Provides an ill-defined range of application (e.g. ‘You are always unprofessional’)
- Does not clarify the impact and implications for an employee’s action (e.g. ‘You need to improve your attitude’).

6. Linking performance to reward
Some questions to consider when linking performance to reward are:

- What is measured? Remember that ‘what gets measured gets done’. Reward for qualitative as well as quantitative performance. Identify the bottom line ‘must haves’ (reports on time, completed compliance) and the business objectives – employee turnover, improvements made and savings made
- How are employees rewarded? Examples are salaries, bonuses or status. It is important to note the need for perceived fairness and consistency – a documented process with clear reward levels is important
- What are the tax and financial implications of the reward system? Consider the employee’s needs: a person with a young family may prefer a different type of reward to a near-retirement employee
- How do the rewards relate to the market? To find out, refer to job ads, talk to recruiters or obtain published salary guides.

A knowledge guide with supporting references and links is available on the Institute website charteredaccountants.com.au/performancereviews

Takeaway

Quick questions for one-on-one reviews (employee to self assess, manager to make notes – prior to review)

Since your last performance review:

- What has gone well?
- What has not gone so well?
- What have you achieved?
- Has anything improved or affected our organisational performance?
- How could your manager help to improve your performance?
- What examples can you give to demonstrate your commitment to the company’s values?
- What parts of your job do you enjoy?
- What parts don’t you enjoy? How can this be changed?
- What are your goals over the next 6 to 12 months?
- What do you think the company could do to improve working conditions or to assist you further in your job?
Board reporting for SMEs

Many directors may find themselves wading through massive reporting packs days before a board meeting trying to understand and extract the relevant information. This Business Insight contains the key elements of effective board reporting to assist preparers of board information.

The fiduciary duties and responsibilities of directors are well known and are becoming increasingly more onerous. Directors are expected to read, evaluate and approve more and more information as board members and members of corporate committees.

There are several questions that Small to Medium Enterprises (SMEs) must ask as they prepare information for their directors:

- How many directors actually understand the information provided?
- Is the information relevant to the directors’ needs?
- How do preparers meet the needs of a diverse group of directors from different backgrounds?
- Does the information allow the directors to adequately perform their duties?
- Are you being transparent about what information is reported and how it is presented?

There are no simple answers – it’s an ongoing balancing act.

Elements that lead to effective board reporting for SMEs

1. Timeliness

The best board report is redundant to decision makers if the information is out-of-date. If adverse trends are to be addressed quickly, the information must be presented on a timely basis. For example, information presented monthly will not be helpful if it isn’t available until the end of the next month.

Preparers of information for boards need to be aware of the key drivers of the business and how timely the decision makers need that information. An agreed schedule must be drawn up at the commencement of each financial year and it is imperative the information is prepared in accordance with that schedule. It may be helpful to consider the timing of board meetings so that the most recent information can be made available for those meetings. This gives the board confidence and surety about their decision making process.

2. Focus on the future

Board reports should not only cover the ongoing operations but also report on the progress in achieving the objectives and strategy. Directors often spend a lot of time reviewing what has occurred in the past, when it is what lies ahead that is critical to understand.

Following these key points will enable the board to be focused on where the organisation is heading:

- The board reporting package needs to outline not only what has happened, but also convey management’s future intentions and what the risks are
- Profit and cashflow forecasts should look out as far as needed to anticipate adverse trends in sufficient time to address them
- Trends are critical to the understanding of the business – these must be included in all board reports so forecasts are fully understood
- Forecasts need to be updated regularly to provide an accurate ongoing picture of where the business is heading
- The balance sheet is important in terms of a company’s debt management and debt capacity.

3. Frequency

The frequency of reports is a delicate balancing act – too often will lead to decision makers becoming disinterested in the information provided. If trends in daily sales are a critical indicator of business health, it is no use reporting them monthly, two weeks after the end of the month. Alternatively if income is assured in the short term then tracking daily or weekly revenue is not useful. It will be irrelevant to decision makers and will undermine the quality of the information given to the board.

Information reported too infrequently will not provide decision makers with the information they need when they need it. Daily or weekly reports of key activity measures may be required for businesses in a volatile environment. For others, monthly reporting of financial reports and KPIs may be sufficient.

The appropriate frequency of reporting depends on the nature of the information being reported. For example, a report against strategic plans is more likely to be reported bi-annually rather than monthly. The schedule for reporting should be agreed upon with the board on an annual basis, but flexibility is vital in ensuring the board feels they can seek the information they want, when they want it.

Preparers of information for boards need to be aware of the key drivers of the business and how timely the decision makers need that information.
Every board and every business is unique and this means tailored reporting solutions are required.

4. Content
Too much financial information may potentially distract directors from the real issues of a business, whilst too little information may prevent directors from fulfilling their obligations.

To provide the most useful content:
- Identify the top six to seven key performance indicators – a few will be financial, all will have a financial impact. Link the KPIs to strategic objectives and their achievement
- Include both lead and lag indicators to allow directors to quickly understand key issues and identify potential trouble spots
- Include regulatory and compliance matters the board must be aware of and monitor
- Cover all categories of the sustainability criteria – financial, customers and stakeholders, assets and resources, environment and heritage, governance, processes and people
- Set targets for each KPI – in line with the budget and/or strategic plan

Accompany KPI reports with action plans on what is proposed to rectify adverse trends and what is proposed to lock in favourable trends, by who and by when.

For example, if income is assured in the short term then tracking daily or weekly revenue will not be as useful as reporting other key indicators of current activity that will assure longer term revenue such as new memberships in a fitness club. If margins are more critical than gross sales then these should be closely monitored (e.g. catering).

5. Provide reliable comparisons
Benchmarking information on competitors, products, operations and the industry is becoming more widely available. Information preparers must take advantage of this opportunity to provide decision makers with relevant and timely comparisons to their own business.

Agree on important benchmarks with the board at the beginning of the financial year. Report on these regularly and update the board of any industry or competitor changes. Comparable industry information in board reports makes understanding the business information so much easier.

Relative targets* involve identifying financial and non-financial KPIs. The idea behind relative targets is to compare your company against competitors who are also impacted by the same external forces. This enables you to see how your business is performing on a relative basis.

6. Format and presentation
Ascertain how board members and managers like to receive information. Some like tables of figures, some like graphs – adapt the format to create a report that meets all of the directors needs.

Contents of the report should be reviewed regularly and changed if the business has changed. Breaking down the information flow to directors into smaller parcels can assist them in analysing business performance.

With advances in technology and software, the ability to keep directors informed through the use of dashboards**, intranets and other information resources allow real time information to be regularly communicated. This allows directors to have a good feel of the operational environment before they even receive their board papers. That leaves more room in the board papers for analysis and gives directors a chance to understand how management is interpreting the data and how that interpretation may be driving strategy.

Therefore, the report should provide a mix of presentation formats. This will include the mode of delivery – from traditional hard copy to digital updates.

7. Seek feedback
There is significant value to be gained from boards regularly reviewing reporting packages to confirm how much of the information is of value and critical to the director’s role as a board and committee member. Boards and committees may find it beneficial to internally review with management how reports can be altered, edited, condensed, or even eliminated in order to provide more concise, meaningful and relevant information.

Seeking feedback from directors on how to improve board reporting packs is an invaluable tool. The following are some suggested ways preparers can do this:
- Hold regular stakeholder sessions that focus on what information is used and what takes up time without adding any value
- Make an effort to understand the background, skills and dynamics of each director and what their reporting needs are
- Understand individual directors’ preferences for tabulated data, graphs, or detailed narratives or a combination of these. This should assist in providing information in a format that all directors can more easily understand
- Include in any review of board reporting packages new information that allows directors to provide feedback and input into opportunities and risks.

The challenge of balance is to provide the right level of information to directors that enable them to ask concise, worthwhile questions thereby maximising their contribution at every board and committee meeting.

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*See Business Insight on Performance targets without budgets.
**See Business Insight on Dashboards.
Reconciliations

All organisations need to regularly reconcile their general ledger (GL) accounts as a key function of the finance and accounting teams. Given the time and effort spent on reconciliations within organisations and the important role they serve, it is critical that the process is efficient and effective. This Business Insight covers the important principles of reconciliations as well as key focus and risk areas to be aware of.

Whatever your organisation’s size or structure, it is important to have a governance owner of the reconciliation process. The governance owner is generally external to the process and is responsible for:

- Ensuring the timely completion of all reconciliations
- Adequately resolving long outstanding items by due dates and providing guidance to preparers and reviewers
- Providing a high level review to ensure that issues are appropriately identified and addressed.

The governance owner is also responsible for documenting the reconciliation process covering the following main areas:

1. Who
   Every GL and sub GL account should have a preparer and a reviewer. This should be documented to ensure it is clear who is responsible for each.
   Segregation of duties is extremely important. The key rule is whoever does the transaction does not reconcile or review the account. In a small organisation, segregation of duties can be more difficult; however it is equally as important in large organisations. Even small organisations can ensure that bank reconciliations are not performed (or reviewed) by a cheque signatory.
   The review of the reconciliation is equally as critical to the process as the reconciliation itself. It is important for preparers and reviewers to understand the purpose of each reconciliation and what should be included. Understanding the risk areas that the reconciliation is intended to mitigate can help make the process more effective.

2. When
   The frequency of reconciliations will depend on the volume of transactions for each account. It is likely that most accounts will be reconciled monthly. Accounts with a very high volume of transactions, such as bank accounts, may need reconciling on a daily basis. However, some accounts with few transactions, such as fixed assets, may only need reconciling quarterly. In these instances, the accounts should still be reviewed on a monthly basis to check trends.
   The frequency of reconciliation for each account should be documented by the governance owner alongside the preparer and reviewer.

3. How
   Organisations should have standard templates for reconciliations. These are often performed within excel, although some organisations have specific online tools which enable online reviewing. These may be expensive, but depending on the complexities and number of the reconciliations, the benefits often outweigh the costs. All organisations should have a documented process for account reconciliation that includes key principles such as allocation of responsibilities, document process and independent review.

4. What
   Many organisations will find it helpful to create a matrix of all their accounts that lists all balance sheet accounts and sub-accounts. It should also include the accounts use, frequency of reconciliation and its preparer and reviewer. This will help ensure consistency across the organisation. The matrix should also consider the purpose of each reconciliation and how the numbers are proved, which will assist with preparer and reviewer understanding.
   Excel based reconciliations will often be used to support sub-system reports. It is important to consider what evidence is maintained to support the reconciliations and particularly the balance between online and hard copy evidence.
   High risk accounts should be highlighted or listed on a separate register. Their reconciliations should be subject to additional senior level review more frequently.
**Risk areas**

- Internally, the materiality level can be difficult to determine. Consider what an acceptable unrecorded balance is for the organisation. This could be different for different GL accounts, depending on the risks.
- If the transactions in the reconciliation cross different areas of the business, it can be difficult for one person to have full knowledge of the end-to-end transaction.
- IT systems can act as a ‘black box’ for some transactions or the implementation of new systems which may not be complete.
- Overreliance on subject matter experts can leave the business exposed if the expert leaves. Ensure processes and information on the transactions are documented to enable knowledge sharing.
- Suspense accounts must have a policy for reviewing and clearing.
- Manual journals, particularly those between critical accounts, can be high risk, as they could be hiding fraud. Download a system extract of all transactions to see what is moving between accounts. Review journals to avoid irregular ones and set approval levels for journals, with material journals requiring very senior approval.
- Bad news, especially immaterial items, is often not escalated, as there is no incentive. This could hide a problem or inefficiency.
- Items that have been in the reconciliation for many review periods and may have preceded staff reviewing it, if immaterial, may be ignored. Some may assume the item is acceptable as it has been recorded for so long and passed previous reviews and external audits.
- Effective review should be conducted at senior levels. Organisations should not place all reliance and trust on the junior level.
- Effective internal controls for sub-systems can be implemented to reduce the risk of something going wrong. Segregation of duties is also important so one person is not doing too many tasks.

**Other Insights**

- Conduct reconciliation reviews face-to-face.
- Check the general ledger.
- Look for the potential ‘missing’ reconciliation items.
- Reward employees for identifying inefficiencies in the process.
- Educate those involved about the transactions and accounts.
- Look to identify accounting process inefficiencies.

**Focus areas:**

- Be vigilant about escalating issues and obtaining a qualitative sign off.
- Determine a policy for reviewing and clearing suspense accounts.
- Review all points independently.
- Determine if nil balances are reconciled and if it is possible that a particular account should have a balance.

**Inefficiencies to watch out for:**

- Inter account transfers and inter-company transactions can result in a large volume of transactions which can create difficulties in reconciliations.
- Too many accounts may create large numbers of reconciliations. Organisations should look to rationalise the entities in the group and the chart of accounts*.
- Unreconciled items, for example an invoice in dispute, can be overlooked. Assign a review date and if not cleared, adjust in the underlying ledger.

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*See Business Insight on Chart of accounts.*
Dashboard reporting

Once used by only car drivers and pilots, the term ‘dashboard’ is now entrenched in business vocabulary. While dashboard reporting is not a new phenomenon, its effective use by finance teams is a constant challenge. This Business Insight provides general guidance on some of the key considerations when designing and implementing an organisation’s dashboard reporting system.

What is dashboard reporting?
A dashboard report is a one-page snapshot of an organisation’s key business drivers and metrics that will enable a user to make informed decisions about business performance. Although this concept is quite simple, there are a number of important elements to dashboard reporting that present practical challenges when implementing.

Dashboard reporting can be applied to any large data set by offering a summarised but insightful understanding of performance. The evolution of dashboard reporting in organisations can be complex and ad hoc, and may involve many stakeholders from within the business to actively engage in the development process.

Dashboard reporting is not the exclusive domain of finance teams. Other teams (such as IT, marketing or operations) may lead this process in some organisations. This Business Insight, however, positions the finance team in the “driver’s seat”.

How do I implement dashboard reporting?
While there is no universally accepted, single approach to dashboard reporting, practical experience from organisations that have gone through this process highlight the following possible approaches that have been successful:

1. Scope specific challenges
Focus on one or two specific challenges and carefully scope these out. Trying to solve multiple challenges in your first attempt at dashboard reporting is particularly difficult, especially if the work is to be completed on top of your existing workload. Don’t underestimate the time required to come up with a practical and sustainable approach. For example, trying to get mutual agreement on a set of main KPIs at both the business unit and group level can be a slow process. Due to the interdependencies of many factors reported in the dashboard, achieving success on a specific challenge will help you focus your efforts to a complete end. This will also bring to life the complexities unique to your organisation. As your learning increases by achieving pockets of success, you can start to join the dots and begin to consolidate your knowledge by integrating them into one system.

2. Use technology
Be aware that much of the content contained in dashboard reporting involves data collection, processing and presenting information. Technology plays a pivotal role in capturing the right data in the required format and offers a powerful source of insight. Smaller organisations often use excel based methodologies whereas larger organisations often to use a Business Intelligence (BI) solution with proprietary software. Time saved by using technology can be better spent on analysis and other value added services. Utilising technology is critical for efficiency and timeliness to make dashboard reporting as real time as possible. Also, establishing a central data hub will promote greater consistency to build integrity around data sources and ensure there is only one version of each data set.

3. Start from the top
Start dashboard reporting from as high in the organisation as possible so goals can then be cascaded throughout the organisation. This means the data is more likely to align with strategic initiatives and will encourage greater buy-in from senior management. It is critical to achieve senior management support (starting with the CFO and CEO) to ensure availability and commitment of resources. This approach will develop consistencies between group and business units and furthermore, will enable comparative analysis across business units.

A one-page snapshot of an organisation’s key business drivers and metrics that will enable a user to make informed decisions about business performance.
Elements of a Dashboard Report

One page
- Ensure it is succinct, relevant and targeted so all information can be seen at once without flipping between pages

Snapshot
- Paint a picture that captures completeness and context

Key business drivers and metrics
- Align the report to your organisation’s strategy
- Measure both financial and non-financial metrics. These need to be identified, measured and then narrowed down to a few key points.

Organisation
- Determine the different ways the organisation can be viewed (geographic region, product, hierarchy structure, project teams)

Reader
- Identify your audience and tailor the dashboard report with particular focus on their concern. (e.g. group versus business units metrics)

Make informed decisions
- Anticipate the right information to help readers make informed and effective decisions
- Review data from a senior level,

4. Build maximum flexibility
When developing the back-end systems that will power the dashboard reporting process, ensure maximum flexibility so that the data can be reported in an infinite number of ways. This will reflect the evolving and changing information needs of stakeholders and the business environment.

A common mistake during the development phase is to build narrow systems that solve current needs without any foresight. This requires balance of time and resources invested now for undefined report changes that will potentially occur in the future, while working to current deadlines in a commercial environment.

5. Integrate with month-end process
Fully integrating dashboard reporting into the month-end reporting process takes advantage of the many synergies and possible applications (e.g. analysis of daily sales or monthly board/management reporting). Finance teams preparing month-end reports* are in one of the best positions to use that information in a more forward looking and analytical way. Without trying to ‘reinvent the wheel’, dashboard reporting should fit into the month-end timeline and be anchored as another function led by the finance team.

How do I present my data?
The end result and ultimate deliverable of this process is the dashboard report itself. Deciding how to present this effectively can be complex. The dashboard presentation needs to give justice to the information-rich content by ensuring it effectively conveys the messages and is easy to view. All too often, dashboard presentations can become cluttered and filled with graphics that distract from the underlying messages. There have been numerous books on this topic, however one of the more notable influences is Stephen Few’s Information Dashboard Design – Effective Visual Communication of Data1.

Few explains good and bad practice of dashboard design with plenty of illustrations. The following guidance is offered by Few and has been observed by others2 to reflect good dashboard design:
- Use colour minimally
- Place the most important information in the upper left quadrant of the page
- Use bullet graphs to condense a great deal of information
- Use white space to delineate and group data
- Don’t make unnecessary clutter such as instructions and descriptions.

Dashboard reporting is an excellent way to paint a picture of how an organisation is tracking. In implementing a new system, make sure you take into account your organisation’s unique circumstances to ensure your approach is useful and effective.

Focus areas

Use of the Pivot Table function in Microsoft Excel 2007/10 offers a powerful, yet simple way to slice and dice data with quick results. Remember:
- Numbers only need to be shown to the nearest thousand or million
- Selecting the best type of graph is important, but where appropriate, apply consistent graph types to make it easier for the reader to interpret information
- Confirm group and business unit sets of KPIs to measure performance
- Keep the charts simple with clear distinction between data sets (refer to May 2011 Charter magazine for guidance on Pivot tables).


*See Business Insight on Month-end reporting.

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Career Mentoring

What is mentoring?
The purpose of mentoring is to help individuals improve their skills, knowledge and behaviours and move successfully through times of change and transitions.

A mentoring relationship matches a more experienced person who acts as a listener and guide to a person with less experience in an area of business or personal development.

It is generally agreed that mentoring as a developmental relationship can facilitate powerful learning experiences.

This Business Insight aims to provide you with some best-practice guidelines for establishing mentoring relationships, as well as practical suggestions on how to set up the first meeting and manage the ongoing relationship. These can be applied to an individual looking to establish a mentoring relationship, or to an organisation looking to create an internal mentoring program.

The win-win of mentoring
Often in a mentoring arrangement, it is all parties that benefit.

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Organisation</th>
<th>Mentor</th>
<th>Mentee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facilitates staff retention, succession planning and talent development</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Promotes leadership development</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Underpins skills and knowledge transfer</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Enhanced integration through cross-functional teamwork and communication</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Enhances trust and understanding</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Strengthens leadership and interpersonal skills associated with listening and coaching</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enhances personal reputation as leader</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expands own network outside of functional area</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Enhances professional development of skills, knowledge and experience</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Enhances professional networks</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provides independent view of challenges and roadblocks within the organisation</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deepens knowledge of political workings of an organisation</td>
<td>X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Key behaviours of a successful mentor and mentee

There is an unspoken code of behaviour that exists in mentoring relationships. Unfortunately, as it is unspoken, both participants in the mentoring relationship may, unknowingly and unintentionally, end up doing the wrong thing.

All individuals come to a new relationship with different styles of communication, different points of view and different expectations. Working in a new relationship with someone very different from you is a skill. As with any skill, the more you practice, the easier it gets. At the very minimum, relationship skills required for mentoring include; showing kindness, practicing patience and flexibility, and conveying a sense of appreciation for the individual’s accomplishments.

The following are some practical considerations of the DO’s and DON’Ts of mentoring:

<table>
<thead>
<tr>
<th><strong>MENTOR DOs ✔</strong></th>
<th><strong>MENTOR DON’Ts ✘</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Respect your mentee’s time as much as your own.</td>
<td>Assume that your schedule always has priority.</td>
</tr>
<tr>
<td>Be explicit about the ‘norms’ for your meetings and your own needs and limits (e.g. time, where, how, etc.).</td>
<td>Make your mentee guess or learn by trial and error, about the ground rules for your meetings.</td>
</tr>
<tr>
<td>Always ask if you can make a suggestion or offer feedback.</td>
<td>Automatically give advice or criticism.</td>
</tr>
<tr>
<td>Tell your mentee that you don’t expect them to follow all of your suggestions.</td>
<td>Assume your advice will be followed.</td>
</tr>
<tr>
<td>Expect your mentee to move toward his/her goals not yours.</td>
<td>Expect a clone of yourself.</td>
</tr>
<tr>
<td>Express appreciation for any help your mentee gives you.</td>
<td>Take your mentee for granted or assume that she/he doesn’t need positive reinforcement.</td>
</tr>
<tr>
<td>Keep the relationship on a professional basis.</td>
<td>Move too quickly into a personal friendship, if at all.</td>
</tr>
<tr>
<td>Recognise and work through conflicts in a respectful way; invite discussions of differences.</td>
<td>Discuss inappropriate subjects or force your solutions in conflicts.</td>
</tr>
<tr>
<td>Keep the door open for your mentee to contact you in the future—if you wish.</td>
<td>End the relationship on a sour note.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>MENTEE DOs ✔</strong></th>
<th><strong>MENTEE DON’Ts ✘</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Set specific goals and expectations for the mentoring relationship. Clearly communicate what you want from the relationship.</td>
<td>Expect the mentor to make decisions for you. Learn to resolve problems and issues independently of the mentor.</td>
</tr>
<tr>
<td>Maintain distinct boundaries and understand what the mentor expects.</td>
<td>Take advantage of the mentor. It is important to respect the mentor’s time and help.</td>
</tr>
<tr>
<td>Be proactive. It is the mentee’s responsibility to maintain contact with the mentor and schedule future interactions.</td>
<td>Treat the mentor professionally and in an ethical fashion. Be thoughtful and sensitive about the mentor’s feelings and time.</td>
</tr>
<tr>
<td>Gossip about the mentor.</td>
<td>Take rejection of a mentoring request personally.</td>
</tr>
</tbody>
</table>

And remember: a mentor is not a substitute manager, a career maker, a miracle worker, a vehicle to fast-track opportunities, a social worker or a technical guru.
Starting your mentoring relationship
Finding a mentor or mentee can be as easy or as hard as you make it. You might have a colleague or acquaintance whose experience and insights you respect; consider approaching them to be your mentor. Grow your networks and identify potential mentors from within them.

The mentee
In an in-house mentoring program you might be automatically paired to a mentor. If you have the opportunity in a mentoring program to self-select, be careful to select a person who is not your direct manager and to whom you have no direct reporting lines. This will ensure maximum objectivity and independence in your discussions. While managers and supervisors have a responsibility to train and develop their staff, the mentor-mentee relationship focuses more on developing soft skills in an independent environment.

The mentor
If you are a potential mentor, don’t be hesitant about reaching out to an individual who you think may benefit from mentoring. Remember when you were in their shoes – reaching out for help and advice wasn’t always an easy thing to do. But be mindful of how you approach that person, don’t assume you know best what’s good for them.

The Mentoring Relationship
The mentoring relationship can be broken into 4 stages. Each stage needs to be approached in the correct manner to ensure a successful outcome for both parties.

1. Relationship foundation
Take time to establish good rapport. From the beginning establish clear expectations on both sides as to what you are trying to achieve and how you will behave towards each other. Set ground rules during the first meeting, including a mutual agreement on the confidential nature of the discussions.

2. Goal Navigation
By the end of the second session the mentor and mentee should clearly understand and be able to describe how and where the relationship is going. The first meeting is about establishing rapport and the second one revolves around clarifying goals and determining the process to achieve the goals. Having clear goals is important and often a mentee may choose to link these to specific career goals. The mentor’s role will be to assist in clarifying these goals as well as their priority, timing and how to achieve them.

3. Progression
The two main activities in this phase are moving towards discussed goals and dealing with issues that arise on a day to day basis. This includes providing practical advice in a supportive way, allowing the mentee to formulate their own solutions to issues and developing personally and professionally.

4. Natural end
Some mentoring relationships have a predetermined running time, such as formal mentoring programs. If the relationship was created outside of a formal program then both the mentor and mentee can establish an end date for their relationship, which can always be reviewed as the date approaches. Remember, some relationships will come to a natural end, others may continue indefinitely – both outcomes are totally acceptable. It is common for mentees to seek different mentors over a period of time; and for mentors to seek new mentees also.

Don’t forget...
Mentoring, like most things in the development of your professional career, is not an exact science. The mentoring relationship you establish will be as successful as you set it up to be, irrespective of whether you are the mentor or the mentee.

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Business interruption insurance – surviving a financial disaster

In Australia, events such as cyclones, bushfires and floods frequently cause major interruptions to businesses, in addition to thousands of smaller and less publicised events. The likelihood and severity of such events is frequently underestimated which can cause significant losses that a business may never recover from.

Business interruption insurance (BII) provides cover to help maintain a business’ cashflows, providing funds for business continuity by insuring the impacts of loss of revenue, retention of key personnel, payments for fixed costs and relocating operations.

This Business Insight discusses some of the factors to consider when taking out BII and some of the key terms. It is not comprehensive and, if in any doubt, you should contact your broker or insurer.

Why use business interruption insurance?

The physical or material loss of, or damage to, property assets such as buildings, machinery, raw materials and other assets are generally covered through property insurance policies. However, during a major interruption, other losses may be incurred including:

- Loss of turnover
- Ongoing fixed costs, such as rent, interest and utilities
- Additional costs incurred as a result of the interruption. For example rent of temporary premises or plant
- Payroll to retain key personnel.

BII is critical in protecting against these types of losses. In most instances a business interruption claim is only triggered once there is material damage. Insurance of losses arising from the effects of interruptions is also commonly referred to as ‘consequential loss’ or ‘loss of profit’ insurance.

In a perfect world BII would indemnify the insured business to return it to a financial position as if no loss had occurred. In addition to damage to the business’ property, BII may also cover situations where suppliers’ property is damaged or access is denied to the business premises, if this is covered under the policy and if the suppliers are named.

During re-establishment of business operations, higher than normal costs may be incurred. For example, hiring temporary staff or equipment to maintain normal business operations. Providing funds to cover these costs is another critical element of BII.

Types of insurance

In Australia, businesses normally insure assets through either an industrial special risks (ISR) insurance policy or through a business package. The choice of policy often comes down to the size of the business and both types allow the insured to cover their business interruption exposure.

It is important to investigate the cover provided by each type of policy. Although they have generally similar cover, the differences may be important for a particular business.

Industrial special risks (ISR) insurance

For larger businesses, both material loss or damage cover and BII are commonly combined under the umbrella of one ISR policy. Despite the use of the word ‘industrial’ this type of policy is not limited to manufacturing or industrial businesses. In this policy, business interruption is normally referred to as ‘Section 2: Consequential Loss’.

Business package

For smaller businesses, the business package allows the insured to select from a range of cover. The product normally includes a property damage section, legal liabilities, crime, breakdown of business equipment and critically, a business interruption section. Policies and coverage vary, but essentially the business interruption cover operates in a similar way to an ISR policy.

Careful review of all expense items needs to be undertaken and their variability identified.
Insurable gross profit

The most obvious source of losses when a business is interrupted is the cessation, or significant reduction, in turnover and the resulting loss of gross profit. Indemnity for these losses is therefore based on gross profit.

However, there is a significant difference between the definition of accounting gross profit and insurable gross profit. The failure to understand this difference can have a major impact on a claim.

Accounting gross profit

In determining accounting gross profit, all manufacturing costs such as direct materials (including the movement between opening and closing inventories), direct labour and factory overheads, are captured and deducted from sales turnover.

Insured gross profit

Insured gross profit is the difference between sales turnover, the movement in inventories and those expenses that do not necessarily continue as a result of a business interruption event. These variable expenses are sometimes referred to as ‘uninsured working expenses’ and vary considerably between individual businesses.

The following simple example demonstrates the difference between insured gross profit and accounting gross profit.

<table>
<thead>
<tr>
<th>INSURED GROSS PROFIT</th>
<th>ACCOUNTING GROSS PROFIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>$’000</td>
<td>$’000</td>
</tr>
<tr>
<td>Sales Turnover</td>
<td>200</td>
</tr>
<tr>
<td>Opening Stock</td>
<td>(40)</td>
</tr>
<tr>
<td>Opening Work in Progress</td>
<td>(10)</td>
</tr>
<tr>
<td>Uninsured Working Expenses (UIW)</td>
<td></td>
</tr>
<tr>
<td>– Direct materials</td>
<td>(100)</td>
</tr>
<tr>
<td>– Direct Labour</td>
<td>(10)</td>
</tr>
<tr>
<td>Closing Stock</td>
<td>50</td>
</tr>
<tr>
<td>Closing Work in Progress</td>
<td>5</td>
</tr>
<tr>
<td>Total Inventory and UIW</td>
<td>(105)</td>
</tr>
<tr>
<td>Insurable Gross Profit</td>
<td>95</td>
</tr>
<tr>
<td><strong>Insurable Gross Margin</strong></td>
<td><strong>48%</strong></td>
</tr>
<tr>
<td>Sales Turnover</td>
<td>200</td>
</tr>
<tr>
<td>Less COGS</td>
<td></td>
</tr>
<tr>
<td>Opening Stock</td>
<td>(40)</td>
</tr>
<tr>
<td>Opening Work in Progress</td>
<td>(10)</td>
</tr>
<tr>
<td>Direct materials</td>
<td>(100)</td>
</tr>
<tr>
<td>Direct Labour</td>
<td>(10)</td>
</tr>
<tr>
<td>Overhead Allocation</td>
<td>(40)</td>
</tr>
<tr>
<td>Selling Expenses</td>
<td>(5)</td>
</tr>
<tr>
<td>Closing Stock</td>
<td>50</td>
</tr>
<tr>
<td>Closing Work in Progress</td>
<td>5</td>
</tr>
<tr>
<td>Total COGS</td>
<td>(150)</td>
</tr>
<tr>
<td><strong>Accounting Gross Profit</strong></td>
<td><strong>50</strong></td>
</tr>
<tr>
<td><strong>Accounting Gross Margin</strong></td>
<td><strong>25%</strong></td>
</tr>
</tbody>
</table>

The insurable gross profit is greater because the insurance is covering those costs in the accounting gross profit that do not vary with turnover.

It is important to exercise caution when nominating uninsured working expenses. To be fully insured only those expenses that are truly variable and linked directly to sales, should be listed as uninsured working expenses. Purchases of raw materials, freight and packaging are good examples. However, other expenses may not decrease in proportion to sales revenue in the event of a disruption. For example, electricity and water can have both fixed and variable components.

Where standard costs are used in a manufacturing environment, the insurer may undertake a review of monthly variance analysis and standard costs may be adjusted. The business therefore needs to ensure that its standard costs are accurate.

Careful review of all expense items needs to be undertaken and their variability identified. Importantly, BII policies normally include an underinsurance, or average, clause that can further decrease the claims payment if the business has failed to adequately insure for the correct amount.

Payroll costs

Cover for payroll costs normally has the following options:

- Full cover – under the insured gross profit
- Dual wages – partial cover for key employees or for a fixed period
- No cover – included in uninsured working expenses.

Particular care should be taken when insuring payroll. Whilst premiums can be saved by not insuring wages, there may be legal or financial implications to letting staff go and, in a highly competitive environment, replacing specialist staff may be difficult.

Indemnity period

Determining the required indemnity period is one of the most critical components in arranging BII. This is the period of time the policy will cover the interruption in revenue after an event. The indemnity period starts at the beginning of the occurrence of the damage and ends on a date agreed with the insurer, or the date the business is no longer affected by the loss, if the latter is earlier.

Strategically, businesses need to assess the time it would take from an interruption event occurring, to the business returning to full operation. Variables such as time to rebuild a property, the availability of specialised replacement equipment and council approval processes all need to be taken into account.
Additional increased costs of working

Increased costs of working are payments an insurer will make for the sole purpose of avoiding a reduction in turnover. These could include the costs of temporary relocation, advertising, express delivery of specialised equipment or additional staff. This cover will normally come out of the gross profits sum insured and is therefore automatically insured. Critically, this cover can only be used if the expense directly reduces the amount of turnover otherwise lost.

Increased costs

Businesses will often incur increased operating costs as a direct result of an interruption. Policies normally cover costs such as increased costs of working or the more comprehensive additional increased costs of working.

Tips:

**Before an interruption:**

- Read the insurance policy document carefully and, if in doubt, seek clarification in writing from the broker, insurer or even legal advisers
- Understand what events are specifically excluded from cover e.g. strikes. Seek confirmation from the insurer or broker if in doubt
- Identify if any extensions to cover are required e.g. external supply chain risks
- Understand if increased costs of working are covered
- Revise insurance policies when business circumstances change
- Confirm with the broker or insurer the precise components to be used in the calculation of insured gross profit
- If there is any doubt about an expense, then insure it
- Give strategic thought to how long it would take the business to resume normal operations, regain markets and be deemed to have fully recovered
- Confirm if the policy provides for claims preparation costs by a professional claims consultant and, if so, identify an expert
- Determine whether full, partial/dual cover or no cover is required for payroll costs.

**After an interruption:**

- Keep detailed records, photographs, registers of meetings and attendees for everything associated with the interruption event and the recovery process
- Take time to identify the full scope of loss and prepare the claim in a concise, comprehensive and detailed fashion
- Prepare preliminary loss or expense substantiation reports to assist in securing an advance on the final claim settlement
- Maintain control over decisions during the claim process by actively determining the course of action and maintaining focus on what’s best for the business overall
- Conduct due diligence on the veracity of claims calculations
- Submit a timely claim to facilitate a quick and equitable settlement
- Upon settlement of a claim, undertake a detailed review of the process to identify what worked well, what caused concerns and where problems may be avoided in future.

Less tangible factors such as the competitive environment and the attractiveness of the business to customers during rebuilding also need to be considered. For example, a large hotel in a competitive location may require a long indemnity period to account for competitors taking advantage of the interruption or the impact of damaged or half-finished premises discouraging the return of clientele.

**Claim preparation**

Claim preparation is vital to a speedy recovery and cover is available to pay for the professional costs of preparing a claim. Cover can pay for accountants, auditors and claims consultants to ensure the claim details are prepared quickly and accurately.

**Updating policies**

It may be necessary to adjust a BII policy to recognise changes in the business. There is risk of under-insurance or over-insurance if policy cover is not regularly reviewed.

It important that business trends are taken into account, especially if the indemnity period is long. The cover will need to consider the business’ financial position several years in advance to ensure the cover is appropriate at the time it is needed.

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Key Performance Indicators

This Business Insight provides some practical guidance and tips on how to design and report key performance indicators (KPIs).

Benefits of KPIs
Modern finance systems are capable of generating many reports every month, drilling down to the minute detail of how a business is performing. The weakness in this approach is that the potential volume of information makes it difficult to understand which information is most relevant to the historical performance and management of future operations.

To identify the most relevant information, most organisations use a set of KPIs to measure business performance. KPIs are used to align the organisation’s strategic goals with its operations and improve future performance. The joint ownership of KPIs by the CEO and the executive team provides a focus for directing their teams.

Features of KPIs
KPIs are intended to assess historical performance and also improve future performance. This means effective KPIs link strategy, operations and the performance of individuals. To do this, KPIs focus on the specific business processes that contribute to achieving the strategic goals. For instance, if the strategy is superior customer service, the average call waiting time could be a suitable KPI.

Ideally, there should be a mixture of financial and non-financial KPIs. While accountants often focus on financial KPIs, non-financial KPIs are often more relevant to the actions or processes that achieve the strategic objective, even if the objective is financial. For instance, the number of units of product sold per month is a more useful KPI than dollar sales per month where managers are not able to influence the sales price of a commodity.

To be effective, KPIs must be understandable and measurable. Vague measures such as ‘improved customer satisfaction’ are subjective and difficult to measure. However, the number of customer complaints per month is measurable, where the organisation maintains adequate complaints records.

KPIs should be regularly reviewed to reflect the development of an organisation’s strategies and objectives, and in response to improved information.

Lead and lag indicators
Lag indicators measure past performance. For example, unit sales of a product for the past month.

Lead indicators measure historical information to indicate likely future performance. For example, the number of new customers signed-up in the past month. Lead indicators can give management time to take action as well as measuring those actions that contribute to future performance.

Designing KPIs
There is a temptation when designing KPIs to use ‘standard’ indicators common across many businesses. However, to measure performance and encourage behaviour that achieves an organisation’s objectives, KPIs need to be specific and definitive.

One option is to use KPIs specific to the industry. For example, retail businesses frequently measure sales per square metre. While the overall strategy might be to maximise total revenue, this is achieved through efficient management of the available store space.

Key indicators should also be specific to the individual business and their particular circumstances. For example, a start-up business might use new customers per month as a KPI, whereas an established business might use measures related to its key customers, such as late deliveries to key customers for the month.

Care should be exercised when designing KPIs to avoid unintended consequences, or you should at least be aware of potential negative consequences with the achievement of the KPI in isolation. Again, this often means ensuring a KPI is specific to the process. For example, a KPI that measures sales against targets for individual sales...
KPIs can also be reported in a dashboard format. This can be tailored to the organisation to provide the most useful ‘snapshot’.

Engaging staff with KPIs

For KPIs to improve performance, it is important that individuals understand how their actions contribute to the achievement of the organisational goals. Organisations often use a cascade approach which links the overall strategic goals to divisional goals and then to performance indicators for individual team members. When using the cascade approach, it can be difficult to identify relevant divisional and personal indicators that contribute to the organisational strategy. Care should be taken to ensure that KPIs set for divisions and individuals are specific to the operations and tasks being performed. For example, if the organisational goal is revenue growth, the warehouse might set stock-outs as a KPI, because this could indicate lost sales opportunities and potentially customers going elsewhere.

Tips

1. Divisional and individual KPIs should be clearly linked to organisational KPIs
2. Don’t have too many KPIs (5 – 10 is a good guide)
3. Don’t attempt to develop all of your data sources and KPIs at once
4. Once you have decided on your KPIs, work out how you will collect, process and report your data as early as possible
5. Consider your organisation’s existing technology before purchasing new dashboard technologies
6. Spend time on testing the KPI reporting system. Errors early in a KPI project will erode confidence in the system
7. Endeavour to collect all your KPI information into one system
8. Ensure individual and divisional KPIs are communicated to staff by their managers including the link to the wider organisational strategy.

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Measuring and reporting on KPIs

KPIs are designed to measure those indicators that are essential to the organisation. Therefore, reporting KPIs should enable performance to be assessed ‘at a glance’.

Balanced scorecard

The ‘Balanced Scorecard’, developed by Kaplan and Norton, is a common system to report KPIs. This system aligns performance with strategy, using financial and non-financial indicators to provide a balanced view.

The balanced scorecard reports from four perspectives. KPIs are selected for each perspective. Many companies have customised the balanced scorecard by amending or adding perspectives.
Project Accounting

The pace and extent of change in modern business means that organisational goals are frequently achieved through distinct projects. Projects often comprise a significant expense for an organisation and are therefore subject to close scrutiny.

As the member of the project team overseeing the finances, the project accountant plays a key role in the success of a project. This Business Insight looks at the range of activities which can be undertaken by project accountants through the main stages of a project’s lifecycle.

Characteristics of projects

Due to their nature as distinct business activities, projects will have most of the following characteristics that provide unique challenges for the project accountant:

• A distinct set of activities that need to be monitored, measured and reported separately
• A fixed time period, which does not generally coincide with the business’s overall financial reporting cycle
• A close working relationship between the project accountant and the project manager. The project manager is reliant on financial reports and the project accountant’s assistance in understanding what these mean for the project. However, the project accountant must also maintain professional independence to ensure objective reporting to all stakeholders. Ideally, the project accountant should have a direct line of report to the CFO (or finance delegate)
• Projects often represent a significant spend and are therefore subject to constant monitoring
• Users of project financial reports are often executives with limited knowledge of accounting.

What is project accounting?

To address these characteristics, project accounting provides financial reports specifically related to the project that track performance and assist with project management. Project accounting therefore includes:

• A separate accounting system or cost centre to track and report project specific transactions, with project revenues, costs, assets and liabilities identified and allocated to the project
• Frequent reporting, with the frequency often increasing as the project approaches completion
• A layer of simplified reporting, including key performance indicators relevant to whether the project is on or off track. For instance traffic lights on a dashboard
• A process for identifying project related transactions in the main accounting system and allocating or apportioning these to the project accounting system
• Forecasting of costs to complete the project. Key stakeholders are often not only focused on the costs incurred to date, but also those committed and the expected final cost.
Project Lifecycle
The project accountant’s involvement can be best understood by examining the four key phases of a project: initiation; planning and set up; execution; and project closure.

1. Initiation
The initiation stage includes evaluating the business case for the project. This stage will often be documented in a ‘concept statement’. The project accountant will be involved in the following activities during the initiation stage:
- Initial engagement with project team members and stakeholders
- Prepare financial models to support the project business case. e.g. discounted cash flow forecasts and return on investment
- Prepare an initial project budget
- Assess project financing requirements and identify potential sources of finance
- Determine the financial reporting impact of the project. e.g. whether project costs can be capitalised in accordance with accounting standards
- Determine potential taxation issues, e.g. GST, cross-border taxes, research and development credits and obtaining expert advice if required.

2. Planning and set up
Planning is in many ways the most critical stage, because a poorly planned project will inevitably fail. Some of the planning activities involve refinement of activities from the initiation stage. For the project accountant these will include:
- Assess the scope of the project. A large project might be best approached as a ‘program’ of work with a number of separate projects/streams nested underneath it
- Create the project accounting system, including a chart of accounts. This will involve determining the financial reporting formats, identifying sources of information in the general ledger and linking the project accounting system and main accounting system
- Design financial reports, including calculation of financial KPIs and non-financial KPIs
- Design and document internal controls around the project accounting system. These will include controls over transaction approvals and capital expenditure
- Determine and document the basis of allocation of costs and revenues to the project. A critical element of this will be how employees allocate and record time spent on the project, particularly where a person is allocated to the project on a part-time basis
- Finalise the project budget
- Prepare the initial financial report. At this stage this is likely to include assets and liabilities required to start the project and any costs incurred to date on activities such as information gathering and analysis as well as obtaining quotes
- Agree service levels with external suppliers. These should include written statements of work
- Understand and help build the governance structures. Projects are usually overseen by a project steering committee. Reporting and approval structures from the project to the steering committee should be documented. In some instances, projects are ‘stage-gated’, which means the steering committee must approve continuation of the project each time a pre-determined stage is reached.

3. Execution
Once the project commences, the project accountant plays a key role in monitoring and controlling progress through maintaining relevant, reliable and up-to-date financial reports. Stakeholders will also look to the project accountant to interpret financial information and advise on the impact on the project.

The project accountant’s responsibilities during the execution phase can be categorised into regular and periodic activities. These will include:

Regular (Daily, weekly or monthly)
- Monitor routine transactions – billing, costs, receipts and payments. This requires an understanding of project-related costs (i.e. what is included/excluded, what is capital expenditure etc.)
- Prepare reports of weekly/monthly performance indicators – e.g. employee hours measured against regular milestones.

Periodic
- Monitor periodic transactions, obtaining authorisations in accordance with the project’s governance framework – payment of suppliers, sales invoicing etc.
- Prepare a complete set of financial reports with comparisons to budget. This will involve processing accruals, prepayments, fixed assets movements and depreciation, lease accounting and other period end adjustments. This requires:
  - Identifying the inputs which make up project costs and revenues
  - Ensuring defined processes exist to collate and record project costs
  - Reconciling all key project accounts including fixed assets, accruals and prepayments.
• Confirm project completion and obtain necessary closure sign-offs from external and internal stakeholders
• Finalise WIP accounts – transfer balances to revenue, costs or assets as appropriate
• Prepare final reports and obtain sign-off from the steering committee
• Close project codes. There should be a mechanism for booking post implementation costs
• Review project benefits – this involves assessing the benefits (rather than the outputs) of the project and comparing these to the planned benefits. The project accountant will play a key role in providing a financial assessment of the benefits derived
• Close communications to stakeholders
• Participate in a post implementation review
• Archive all records appropriately.

### Important considerations for project accounting

- Many projects fail. Project accountants need to ensure that significant deviations from the project plan are communicated as soon as possible. This is likely to require persistence and tact when dealing with executives who are time poor
- ‘Scope creep’ is common. Project accountants need to understand the business case well and ensure that the project is not spending money where there is no mandate to do so
- Where costs are capitalised they may not be scrutinised to the same extent as expenses. The project accountant needs to ensure capital expenditure is subject to appropriate controls and approvals.

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**Contributors**

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