INTEGRATING GOVERNANCE FOR SUSTAINABLE SUCCESS
The mission of the International Federation of Accountants (IFAC) is to serve the public interest by: contributing to the development, adoption and implementation of high-quality international standards and guidance; contributing to the development of strong professional accountancy organizations and accounting firms, and to high-quality practices by professional accountants; promoting the value of professional accountants worldwide; speaking out on public interest issues where the accountancy profession’s expertise is most relevant.

The Professional Accountants in Business (PAIB) Committee serves IFAC member bodies and professional accountants worldwide who work in commerce, industry, financial services, education, and the public and not-for-profit sectors. Its objectives are to promote and contribute to the value of professional accountants in business by increasing awareness of the important roles professional accountants play in creating, enabling, preserving, and reporting value for organizations and their stakeholders; and to support member bodies in enhancing the competence of their members to fulfill those roles. These objectives are achieved by facilitating the communication and sharing of good practices and ideas.

Copies of this publication may be downloaded free of charge at www.ifac.org/paib.
Successful organizations have a governance structure and culture that go beyond conformance with regulations to also support the organization’s efforts to improve its performance. Good governance, therefore, involves giving appropriate attention to both conformance and performance, and is the backbone of sustainable value creation, resource utilization, and accountability of an organization.

These factors were set out in the International Good Practice Guidance (IGPG) Evaluating and Improving Governance in Organizations (IFAC, 2009). According to principle A in that guidance, “the creation and optimization of sustainable stakeholder value should be the objective of governance” and, therefore, “good governance should be fully integrated into the organization” (principle D).

Integrated governance is defined as a holistic approach undertaken by a governing body, often supported by professional accountants in business, to integrate governance into an organization’s drivers of sustainable success.

This report analyzes, with the use of illustrative case studies, how professional accountants in business support their organizations in integrating governance into the key drivers of organizational success (see Table One).

### Table One: Drivers of Sustainable Organizational Success

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<th>Category</th>
<th>Description</th>
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<tr>
<td>Customer and Stakeholder Focus</td>
<td>Understanding and satisfying customer or service-user needs&lt;br&gt;Aligning all parts of an organization to these needs</td>
</tr>
<tr>
<td>Effective Leadership and Strategy</td>
<td>Providing ethical and strategic leadership focused on sustainable value creation&lt;br&gt;Facilitating key performance drivers, including strong corporate values, ethical culture, and organizational structures and processes</td>
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<tr>
<td>Integrated Governance, Risk and Control</td>
<td>Deploying effective governance structures and processes with integrated risk management and internal control&lt;br&gt;Balancing performance and conformance in governance</td>
</tr>
<tr>
<td>Innovation and Adaptability</td>
<td>Innovating processes and products to improve reputation and performance&lt;br&gt;Adapting the organization to changing circumstances</td>
</tr>
<tr>
<td>Financial Management</td>
<td>Ensuring financial leadership and strategy support sustainable value creation&lt;br&gt;Implementing good practices in areas such as tax and treasury, cost and profitability improvement, and working capital management</td>
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<tr>
<td>People and Talent Management</td>
<td>Enabling people and talent management as a strategic function&lt;br&gt;Applying talent management to the finance function so it better serves the needs of the wider organization</td>
</tr>
<tr>
<td>Operational Excellence</td>
<td>Aligning resource allocation with strategic objectives and the drivers of shareholder and stakeholder value&lt;br&gt;Supporting decision making with timely and insightful performance analysis</td>
</tr>
<tr>
<td>Effective and Transparent Communication</td>
<td>Engaging stakeholders effectively to ensure that they receive relevant communications&lt;br&gt;Preparing high-quality business reporting to support stakeholder understanding and decision making</td>
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Source: Competent and Versatile: How Professional Accountants in Business Drive Sustainable Organizational Success (IFAC, 2011)
# Integrating Governance for Sustainable Success

How Professional Accountants Integrate Governance into Their Organizations’ Drivers of Sustainable Success

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Introduction

The numerous global financial crises, which have contributed to many organizational failures, demonstrated that good governance should not be an add-on function—checking off a number of formal requirements but taking it no further. Governance should be truly integrated in all drivers of sustainable success,¹ which is one of the leading principles in the IGPG on governance in organizations (see Appendix A for an overview of all the principles). However, the guidance only provided limited information on how integration can be achieved.

This report supplements the IGPG and analyzes how professional accountants in commerce, industry, financial services, education, and the public and not-for-profit sectors support their organizations in integrating governance into the key drivers of organizational success, as described in Competent and Versatile: How Professional Accountants in Business Drive Sustainable Organizational Success (see Table One).

The following section of this report explains the concepts of integrated governance and sustainable success and identifies the drivers of organizational success. It also briefly describes professional accountants in business and the various roles they generally perform in their organizations. The final section brings the various building blocks of this report together and provides an analysis, supported by case studies, of how professional accountants in business can support their organizations in integrating governance into those drivers.

¹ See the interviews with key business leaders as part of the IFAC Business Reporting Project, available in the Publications & Resources section of the IFAC website.
Integrated Governance—What Does it Mean?

The key objective of most, if not all, organizations—private or public, small or large, commercial or not-for-profit—is to achieve sustainable success. Good governance is not just about protecting stakeholders’ interests, or a compliance exercise to satisfy the requirements of regulators. Instead, good governance supports building sustainable value in organizations and society. Integrated governance helps an organization achieve this lasting success.

**SUSTAINABLE SUCCESS**

Sustainable success can be defined as the combination of the economic, environmental, and social performance of an organization that determines overall stakeholder value and allows the organization to succeed and prosper in the long term. The notion that, in addition to economic performance, environmental and social performance are integral to the sustainability of an organization requires a continual commitment from the leadership of the organization and strong and integrated governance practices at all levels. Additionally, shareholders and other stakeholders should take more interest in the longer-term perspectives of an organization, including holding the board and leadership accountable for overall sustainable performance, not just short-term financial results.

Sustainable value creation involves considering economic, environmental, and social factors—not only because different stakeholders have different interests, but also because these factors are interdependent. Environmental and social factors can also determine or affect the economic value of an organization. Responsible leaders should direct their organization’s strategies, operations, and stakeholder communications with a view toward achieving sustainable economic, environmental, and social success.

**INTEGRATED GOVERNANCE**

Good governance affects the entire organizational cycle of strategic planning, resource utilization, value creation, accountability, and assurance. Such a holistic approach ensures that good governance is not “bolt on” but “built in”—integrated into all aspects of an organization.

In an interview with IFAC, Professor Mervyn King, chair of the King Committee on Corporate Governance in South Africa and of the International Integrated Reporting Council and an international expert on corporate governance, clearly articulated the need for the integration of governance into an organization. He said, “You all have heard of ‘the tone at the top.’ I talk about the tone at the top, the tune in the middle, and the beat of the feet at the bottom.”

Integrated governance is, therefore, defined as a holistic approach undertaken by the governing body to integrate governance into the various drivers of an organization’s sustainable success. The integration of sustainability factors into an organization in order to achieve sustainable success is one aspect of integrated governance included in the IFAC Sustainability Framework 2.0, which shows how business leaders and professional accountants in business can incorporate sustainability considerations into their organization’s strategy, operations, and reporting.

The ultimate objective of governance is to ensure the creation of sustainable success and stakeholder value. Integrating governance is the means to achieve this objective. Clarifying and promoting integration of governance needs to be done within the wider context of understanding the drivers of sustainable success.

**DRIVERS OF SUSTAINABLE SUCCESS**

*Competent and Versatile: How Professional Accountants in Business Drive Sustainable Organizational Success* (IFAC, 2011) established eight drivers of sustainable success that also provide the framework for understanding how governance should be integrated (see Table One).

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2 *Financial Reporting Supply Chain Project, Governance is King* (IFAC, 2010)
These drivers represent the areas in which successful organizations try to excel so as to achieve and sustain high levels of performance and success. They are core elements of every organization that strives to be competitive and sustainable over the long term. Therefore, these drivers are widely seen as being the most important areas of focus for achieving organizational success and lasting stakeholder and shareholder value.

PROFESSIONAL ACCOUNTANTS IN BUSINESS: INTEGRATORS OF GOVERNANCE

Worldwide, more than one million professional accountants support organizations in commerce, industry, financial services, education, and the public and not-for-profit sectors and strive to make them more successful and sustainable. These professional accountants in business form a very diverse constituency, and can be found working as employees, consultants, and self-employed owner-managers or advisors.

Within organizations, many professional accountants are in a position of strategic or functional leadership or are otherwise well placed to partner with colleagues in other disciplines to create long-term sustainable success for their organizations by, for example, evaluating and improving governance.

In the variety of roles that professional accountants in business perform, they are typically involved in the planning, implementation, execution, evaluation, or improvement of governance in their organization. In addition, many professional accountants in business have a responsibility to provide objective and accurate information and analyses to support all of these activities, and may have overall responsibility in governance areas, such as external business reporting.
Integrating Governance into the Organization’s Drivers of Sustainable Success

Governance is still often seen as only a compliance exercise—most often in less successful organizations—rather than a means for driving the sustainable performance of an organization. Although fulfilling governance compliance requirements may be a necessity, it is not sufficient to ensure success. Successful organizations have a governance structure and culture that goes beyond conformance with regulations and supports the organization’s efforts to improve its performance. Governance should be part of the DNA of an organization.

**DRIVER ONE: CUSTOMER AND STAKEHOLDER FOCUS**

Customer focus and aligning an organization with the market is a precursor to sustainable performance. Successful organizations first and foremost create value for customers, subsequently leading to value creation for shareholders. They can only sustainably create value by also meeting the expectations of all stakeholders. A customer and stakeholder focus involves ensuring that the organization as a whole, not merely the front-line staff, puts an understanding of customers and key stakeholder groups first. Similarly, in the public and not-for-profit sectors, sustainable performance is strongly linked to meeting stakeholder expectations and the quality of service delivery to their customers, clients, and society.

The governance guidance from IFAC encourages organizations to take appropriate account of the interests of all stakeholders when making important decisions. It points out that although various interests might seem to be in conflict in the short term, these interests could be aligned in the longer term. For example, the interests of environmental groups may conflict with short-term shareholder interest in maximizing profits. However, in the long term, understanding and taking account of environmental concerns can position an organization more favorably, thereby addressing the interests of all stakeholders.

Irrespective of an organization’s size, structure, or sector, a customer and stakeholder focus can be aided by (a) practicing good customer and stakeholder relationship management; (b) maintaining a customer and stakeholder relations or engagement program; and (c) ensuring that all functions, including finance and accounting, are geared to supporting customer- and stakeholder-focused decisions.

**How Professional Accountants Integrate Governance into Customer and Stakeholder Focus**

Professional accountants in business are well positioned to work in partnership with other disciplines in an organization to engage customers and other internal and external stakeholders and to understand their needs. This helps identify how these stakeholders view the organization, its products and services, and its economic, environmental, and social performance, as well as what they expect from the organization and the finance function.

Exactly how professional accountants help to nurture a customer- and stakeholder-focused organization depends on their position in an organization. At a leadership level, they are well positioned to foster a strong link between business strategy, governance, sustainability and a customer and stakeholder focus. In other positions, they can help to identify, understand, and monitor groups of customers and stakeholders to provide appropriate decision-oriented information. However,
CUSTOMER AND STAKEHOLDER FOCUS AT UPS FROM A CFO PERSPECTIVE

In his keynote address at the Institute of Management Accountants (IMA) 2009 Annual Conference in Denver, Chief Financial Officer (CFO) Kurt Kuehn of the global express-package firm UPS emphasized the importance of a customer and stakeholder focus for finance professionals. Kuehn discussed the challenges organizations face today and how finance professionals can increase their own personal effectiveness and, even more importantly, help impact their organization’s sustainable success. He also identified seven habits of strategic finance that can drive this impact.

—UPS CFO Kurt Kuehn, IMA 2009 Annual Conference; see Appendix B for further information.

DRIVER TWO: EFFECTIVE LEADERSHIP AND STRATEGY

Effective leadership and strategy means that both the governing body and senior management should understand the organization’s business model, its operating environment, and how sustainable organizational success is created and optimized. Effective leaders articulate a clear vision and strategy for the organization, and put into place key enablers of performance, together with organizational structures and processes, that will ensure delivery of its goals and objectives.

Leadership that demonstrates the appropriate tone at the top, including creating and maintaining strong corporate values, is also an important governance issue tied to sustainable organizational success. Effective leaders formalize the values they will adhere to in a code of conduct and instill those values throughout the organization.
How Professional Accountants Integrate Governance into Effective Leadership and Strategy

Professional accountants in business often participate in the key areas of strategic leadership: strategy (what do we want to achieve?); values and attitudes (what do we stand for?); and the business model (how do we organize to create, deliver, and capture sustainable organizational success?).

This involves (a) participating in strategy and planning, providing information and analysis for strategic decision making and maintaining strategic control and financial navigation to ensure execution of strategy and (b) evaluating strategic options that align with the organization’s risk management strategy and policies on internal control and recommending optimal strategies. It also requires setting the right tone at the top in the organization.

In addition, CFOs and professional accountants in other leadership positions increasingly operate as business partners in developing and executing sustainable growth strategies. They facilitate sustainable value creation by:

- challenging conventional assumptions of doing business;
- identifying risks and seizing opportunities;
- establishing appropriate performance goals and targets;
- integrating sustainability issues into strategy, operations, and reporting;
- encouraging and rewarding the right behaviors and taking a firm stance against unethical conduct;
- ensuring that the necessary information is available to support decisions by effectively monitoring and reporting on economic, environmental, and social performance; and
- redefining success in the context of achieving sustainable value creation.

EFFECTIVE LEADERSHIP ACCORDING TO TOMORROW’S GOOD GOVERNANCE FORUM

A useful framework for boards to use in setting the tone at the top is the board mandate, as developed by the Good Governance Forum, an initiative of the UK-based business think-tank Tomorrow’s Company. This is a continually evolving statement about what an organization stands for and how it wishes to be known to all stakeholders. A mandate forms a working charter and has the potential to help boards navigate their way through increasingly choppy waters by facilitating more effective strategic engagement, primarily between executive management and non-executive directors to improve board effectiveness.

—Good Governance Forum, Tomorrow’s Company; see Appendix B or further information
Successful organizations have strong governance systems that allow everyone in the organization to fully understand the risks the organization is and is not willing to take. To that end, successful organizations integrate effective governance structures and processes with performance-focused risk management and internal control systems. They ensure that good governance is more than a compliance exercise by facilitating entrepreneurial and prudent management, which leads to enhanced investor and wider-stakeholder confidence.

Sustainable organizations focus on structure and process, as well as culture, competency, and systems, to support effective governance structures. Standalone or poorly-implemented governance, risk management, and internal control systems usually lead to higher costs and sub-optimal performance. Examples of poorly integrated governance, risk management, and internal control in organizations, and how to counter, include:

- **Having a compliance-only mentality in covering issues such as formal roles and responsibilities, prevention and detection of fraud, and compliance with laws and regulations, but ignoring the need to address both the conformance and performance aspects of governance as two sides of the same coin. Integrating governance into the drivers of sustainable success entails, among other things, directing appropriate effort and attention to the performance side of governance.**

- **Treating risk as only negative and overlooking the idea that organizations need to take risks in pursuit of higher rewards. Effective risk management enables an organization to exploit opportunities and take on additional risk while staying in control and, therefore, increasing its sustainable success.**

- **Having an internal control system that is overly focused on financial reporting. Providing control in relation to financial reporting is important in detection and prevention of fraud, and may be a major focus of corporate regulators. However, effective control systems should connect to the wider organizational risks to help an organization exploit opportunities and manage strategic and operational threats.**

- **Regarding risk management as a separate function or process. Governing bodies are responsible for risk oversight, and senior management is responsible for integrating risk management and oversight across the organization. Line managers should deal with risk as part of their roles and responsibilities, in line with risk management strategy and policies on internal control set by the governing body.**

In 2011, the IFAC Professional Accountants in Business (PAIB) Committee conducted the **Global Survey on Risk Management and Internal Control** to investigate what steps need to be taken to strengthen risk management and internal control practices in organizations. The results from more than 600 respondents from around the globe and all types of organizations indicated (a) that more awareness of the benefits of implementing risk management and internal control systems should be created, and (b) that risk management and internal control systems should be better integrated into organizations’ overall governance, strategy, and operations.

Strong risk management and internal control systems are crucial to strengthening the governance of organizations, and should therefore be fully integrated into the governance structures and processes of an organization at every level and across all operations. This also requires integrating sustainability issues into the organization’s...
governance, risk management, and internal control structures.

An effectively integrated, enterprise-wide governance, risk management, and internal control system:

- integrates and aligns activities and processes related to planning, risk management, policies/procedures, culture, competency, internal audit, financial management, monitoring, and reporting; and

- supports executives/managers in moving an organization forward in a cohesive integrated and aligned manner to improve performance, while operating effectively, efficiently, ethically, legally, and within the established limits for risk taking.

**How Professional Accountants Integrate Governance and Risk and Control**

Within organizations, many professional accountants are partnering with other functions in the design, planning, implementation, execution, and monitoring of governance, risk management, and internal control systems. In addition, many professional accountants in business have a responsibility to provide objective, accurate, and timely information and analyses to support all of these activities.

Professional accountants in business can create awareness among their colleagues regarding the importance of integrating governance, risk management, and internal control. With an integrated, enterprise-wide approach to risk management and internal control, professional accountants in business also encourage the idea that risks are viewed and managed in a more holistic way such that individual risks are not assessed and dealt with in isolation or in a linear, unconnected way.

Professional accountants in business are also frequently engaged in the improvement of documentation and communication of governance, risk management, and internal control systems.

Finally, professional accountants can support their organization in evaluating and improving the effectiveness of its governance, risk management, and internal control systems and processes.\(^3\)

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\(^3\) For additional information, see *Evaluating and Improving Internal Control in Organizations* (IFAC, 2012), which establishes a benchmark for good practice to maintain effective internal control in response to risk and helps professional accountants in business and their organizations create a cycle of continuous improvement for their internal control systems.

**EMBEDDED RISK MANAGEMENT AT UNILEVER**

“At Unilever we believe that effective risk management embedded into the way the business is governed is one way to ensure sustainable success,” according to Charles Nichols, Group Controller of the multinational consumer goods company Unilever. “Successful businesses take/manage risks and opportunities in a considered, structured, controlled, and effective way. Our risk management approach is embedded in the normal course of business. It is ‘paper light—responsibility high.’ Risk management is now part of everyone’s job, everyday! It is no longer managed as a separate standalone activity that is ‘delegated to others’.”

—Unilever; see Appendix B for further information.
Successful organizations meet changing market demands, or, in some cases, shape them. They continually innovate their products and services and adapt their structure, processes, and systems to changing circumstances. Building capacity to develop sustainable products and services, and supporting corresponding processes and systems, requires investment in an innovative capability and supportive organizational culture. Sustainable organizational success requires continuous innovation and adaption.

Innovation can be (a) incremental, allowing for continuous improvement in products/services and processes supporting delivery, or (b) disruptive, where the innovation changes the nature of the market and competitive forces. The ability to respond readily to changing circumstances is important to all organizations. It includes staying alert to what's going on in the competitive environment, and how developments and trends affect an organization and its customer base.

A smaller organization could find it easier to innovate and adapt as there are usually fewer people to influence and persuade and many smaller organizations are inherently more nimble and differentiate themselves on product innovation and targeting niche markets. However, as the organization grows in size, it will require a determined effort to preserve these advantages and to continue to be alert to changes in the environment.

How Professional Accountants Integrate Governance into Innovation and Adaptability

Professional accountants in business support innovation in both the finance function as well as in the wider organization, whether in relation to the way of doing business or to product or process. They can be involved in supporting each of the key stages of innovation development, including innovation and opportunity selection, concept and design definitions, product and service realization, and required production and service support. Working in partnership with other disciplines and functions, professional accountants in business help manage the change management aspects of product and process innovation. They facilitate the adoption and implementation of revised working methods, processes, and systems to support new products/services or approaches to their delivery. They also measure, analyze, and report innovative and adaptive performance.

Within the context of the finance function, professional accountants in business deliver innovative approaches to finance and accounting structures and processes, whether it be in relation to (a) delivering shared services or outsourcing; (b) providing expertise with respect to risk management, mergers and acquisitions, and due diligence; or (c) providing financial leadership and support to the wider organization. With greater awareness of the different opportunities innovations offer, professional accountants in business contribute to the shape, design, and use of innovation. This requires practical experience of the broader issues involved in implementing those innovations.
Successful organizations have strong financial management underpinning their decisions and activities, as all decisions and activities have direct or indirect financial consequences. Organizations ensure that financial strategy and navigation support both long-term economic viability and short-term financial and operational performance. Effective financial management also involves delivering financial leadership and excellence in tax and treasury, cost and profitability improvement, capital management, and project appraisal.

A sustainable organization will have well-developed financial management integrated at all organizational levels of planning and control, including management of financial risks and controls. For smaller organizations, organizational resilience and sustainability is foremost about managing cash flow; dealing with the bank or other sources of finance; providing useful, timely information and analysis with which to manage the business; and ensuring the correct, relevant information is taken into account when making decisions.

How Professional Accountants Integrate Governance into Financial Management

Financial management is, and will continue to be, at the core of what many professional accountants do in organizations, such as:

- Providing analysis and interpretation of financial and non-financial information to the governing body and managers, supporting them in understanding the financial health of the organization and progress in delivering financial objectives, and providing the information and analysis needed for organizational objective setting, strategy formulation, execution, and control;
- Performance management through developing and implementing a financial strategy, cost determination, budgeting, forecasting, and financial control; and
- Corporate finance, including establishing financial objectives and strategies, capital planning and budgeting, raising finances, tax planning, and managing working capital, cash flow, and financial risk.

Professional accountants in business provide (a) value-added information and analysis; (b) high-quality advice that promotes solutions; and (c) interpretations of financial issues and impacts. They are also increasingly tasked to deal with a range of non-financial measurement, analysis, and reporting tasks. As organizations and their external stakeholders increasingly include environmental, social, and governance (ESG) factors in their decision making, this responsibility is likely to

A HIGHLY INNOVATIVE STARTUP

Founded in Canada in 2003, Verafin adapted robotic technology designed for the mining industry to help fight financial crime. Verafin is now a leading provider of anti-money laundering and fraud-detection software in North America as a result of the innovation efforts between Verafin and a number of IT experts in the banking industry. The ability of Verafin’s financial team to engage with potential funders and other stakeholders, develop internal control and reporting systems, manage resources, and execute its launch plan also significantly contributed to its position in the marketplace.

—Verafin; see Appendix B for further information
INTEGRATED FINANCIAL MANAGEMENT AT HONG KONG HOSPITAL AUTHORITY

“In a clinician-led healthcare organization, striking a balance between ensuring control over the proper use of public money whilst maintaining clinicians’ autonomy in exercising professional judgment in determining the best appropriate treatment for patients is always a key challenge faced by finance professionals,” according to Nancy Tse, CFO of the Hong Kong Hospital Authority (HA). “In the HA, financial planning forms an integral part of the service-planning process. It spans the execution of strategic financial planning to strive towards long-term sustainability of HA, the optimizing of internal resource allocations to meet competing service needs, and the exercising of effective financial management and control for accountability in the proper use of public money.”

—Nancy Tse, CFO of the Hong Kong Hospital Authority; see Appendix B for further information

DRIVER SIX: PEOPLE AND TALENT MANAGEMENT

Successful organizations have governance practices that attract and retain talented people and motivate them to greater levels of success. They typically treat people and talent management as strategic capital and a key value driver of their sustainable success. They develop individuals and teams to provide a better understanding of the organization and its environment, opportunities, and risks and how individual actions contribute to achieving the organization’s objectives.

People and talent management are also significant success factors in the development of the finance function to better serve the needs of the wider organization and ensure finance professionals remain competent. Ensuring that finance functions have the right people with the right skills, motivation, and empowerment is crucial in managing during uncertain times.4

Smaller organizations are more likely to rely heavily on key individuals, including their professional accountant(s). Therefore, planning succession or, at the very least, knowing what to do to mitigate the risk of untimely departure of key personnel causing disruption to business continuity is critical.

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How Professional Accountants Integrate Governance into People and Talent Management

Professional accountants should serve as promoters of integrity, transparency, and expertise. They also deploy people and talent management strategies and policies that are focused on determining core competencies, engaging new talent, and retaining critical staff through robust career development—both for the finance function and the wider organization. This enables the organization to continuously meet its changing needs.

Integrating governance into people and talent management also involves (a) exploiting new ways or technologies to engage talent and expertise outside the organization and stimulate collaboration and partnerships across organizational boundaries and (b) ensuring the alignment of the incentives of all employees and collaborators with the accomplishment of the organization’s strategic and operational objectives.

To better support the wider organization in fulfilling its objectives, the finance function also provides leadership, talent management, and human resource policies and practices. These activities support (a) hiring and retaining critical finance staff; (b) succession planning; (c) the development of competence and skills of individuals and teams; and (d) empowerment of finance staff.

Professional accountants in business generally also measure, analyze, and provide high-quality management information on how organizational investments in human capital development lead to the generation of sustainable success, while also identifying risks and opportunities in people and talent management. In addition, professional accountants in business working in smaller organizations without human resource departments often also undertake more operational people-management activities.

SUNWAY GROUP: NURTURING EFFECTIVE AND ETHICAL LEADERSHIP

“Sunway has three core values that support effective and ethical leadership,“ says Sunway’s founding executive chairman, Tan Sri Dato’ Seri Dr. Jeffrey Cheah. Sunway’s three core values are:

- excellence, defined by “we have only one standard—excellence”
- motivating leadership, defined by “we will lead by example”
- integrity, defined by “we will conduct ourselves professionally and ethically”

“Based on these three core values, it is expected that all Sunway employees pursue excellence in their daily work by conducting themselves in a professional and ethical manner and demonstrating the right values and behaviors to others in the organization.” This is particularly true for the development of professional accountants performing many tasks in various leadership roles within Sunway.

—Tan Sri Dato’ Seri Dr. Jeffrey Cheah, Sunway Group (a Malaysian property and construction company); see Appendix B for further information
Successful organizations are disciplined in implementing and maintaining effective and efficient structures and processes to manage resources, operations, and performance through understanding the drivers of stakeholder value and aligning individual and organizational goals, objectives, and rewards to these drivers. They ensure that performance measurement and reporting systems measure progress toward the achievement of strategic and operational objectives. Sustainable organizations also have enabling information management and technology to support insightful financial and non-financial ESG performance information and analysis. This business intelligence provides insight into the key drivers of sustainable success and allows for better alignment of accountability for results, as well as rewards and recognitions.

**How Professional Accountants Integrate Governance into Operational Excellence**

To successfully integrate governance into operational excellence, professional accountants in business support operational staff with performance analysis for product, process, and supply-chain improvement by utilizing their familiarity with analytical procedures and software tools. They align the finance and accounting function with various performance metrics to ensure high-quality reporting supports effective communications to the various internal and external stakeholders. For that purpose, they design and implement operational performance planning, execution, measurement, analysis, and reporting systems and provide adequate information and analysis to support operational feedback and continuous improvement activities.

Professional accountants in business also often use and advise on management approaches, such as lean quality management, as well as on the application of advanced management accounting tools, such as process analysis, strategic and operational cost management, and resource consumption accounting, to make their organizations more operationally successful and more adaptive to changing circumstances.

**HOW THE FINANCE FUNCTION SUPPORTS TATA MOTORS’ OPERATIONS**

“Tata Motor’s philosophy on corporate governance is founded upon a rich Tata legacy of fair, ethical, and transparent governance practices, many of which were in place even before they were mandated,” says C. Ramakrishnan, CFO of automobile company Tata Motors. “The Finance Department facilitates Tata Motors’ establishment of complete transparency and adherence to governance requirements. Our operational reports to the board, audit committee, management, and employees are designed with an objective of highlighting performance and the improvement actions required. In addition, we lead short-, medium-, and long-term planning efforts and coordinate programs for cost reduction, asset rationalization, working-capital management, and investor communication.”

—C. Ramakrishnan, CFO, Tata Motors; see Appendix B for further information.
Successful organizations typically have a systematic and carefully planned approach to engaging with their internal and external stakeholders, such as customers, employees, shareholders, creditors, and regulators. Effective and transparent communication allows organizational leaders to present a cohesive explanation of their business to help stakeholders assess organizational performance.

Successful organizations communicate about their operating philosophy and policies with regard to:

- their financial, social, and environmental sustainability efforts;
- their objectives;
- their risk management;
- their trade-offs between the shorter- and longer-term strategies;
- how they have fared against those benchmarks in practice; and
- what timelines they foresee for bridging any gaps between their objectives and the actual outcomes.

Such information is crucial for stakeholders, who need to make informed decisions with respect to an organization’s capacity to create and preserve value.

Effective stakeholder engagement involves managing stakeholder expectations in a way that does not compromise the sustainability of the organization. According to principle L of *Evaluating and Improving Governance in Organizations*, “the governing body should ensure that reasonable demands from stakeholders for information are met.”

Good governance requires the governing body to oversee an organization’s disclosures, including financial and non-financial reporting, to ensure that external stakeholders receive useful information. In addition, more effective and transparent internal communication can also result in improved organizational decision making.

The enlarged economic, environmental, and social footprint of many organizations causes a greater demand from various stakeholder groups for accountability or ESG information. Furthermore, organizations are not only becoming increasingly more complex themselves, but also have to deal with more complex rules and regulations. This challenges their ability to report and communicate in a concise and understandable way. These developments have led to increasingly voluminous, complex, and compliance-focused business reports.

To address these issues, current reports should be expanded into more connected and holistic business reports that integrate the various economic, environmental, and social aspects of an organization into one cohesive explanation of the business. The International Integrated Reporting Framework, under development by the International Integrated Reporting Council, will play a role in helping organizations in this respect.

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5 See Appendix C for a definition of useful information.
6 According to interviews with 25 key business leaders, summarized in *Integrating the Business Reporting Supply Chain* (IFAC, 2011).
How Professional Accountants Integrate Governance into Effective and Transparent Communication

Flowing from their responsibilities in providing financial leadership, recording financial and non-financial transactions, and measuring performance, professional accountants in business support organizational communication by:

• facilitating the identification of the organization’s stakeholder groups, such as investors, and determining how to effectively engage with each of them;

• providing detailed knowledge of financial and non-financial reporting standards and guidance to ensure that these are correctly applied and used to guide the evolution of internal management systems and processes;

• planning, executing, and controlling the preparation of financial and business reports and other relevant communications that meet the information needs of the various stakeholders and are in compliance with standards and regulatory requirements; and

• managing and monitoring the efficiency, integrity, and effectiveness of the organization’s financial and non-financial reporting processes, systems, and controls.7

Professional accountants in business also support their organization by improving engagement with stakeholders, including communication and reporting processes and systems that respond to changing information demands and implementing new communication and engagement techniques, such as short form reports, XBRL (eXtensible Business Reporting Language), video streams, social media, and integrated reporting.

7 IFAC proposed guidance for business reporting processes, Eleven Principles for Effective Business Reporting Processes (2012), designed to establish a benchmark for good practice in implementing effective business reporting processes in an organization.

EFFECTIVE AND TRANSPARENT STAKEHOLDER COMMUNICATIONS AND ENGAGEMENT AT VANCIY

For financial institution Vancity, transparency and accountability to members and other stakeholders is a top priority in managing its business—and the support of professional accountants is key to a robust approach. “As a cooperative, Vancity understands that to be successful it needs to be accountable to its members and connected to healthy and vibrant communities,” according to Mary Falconer, group controller for Vancity and a professional accountant in Canada. “The benefits of stakeholder engagement are that it builds trust, strengthens relationships, and can help the organization understand its business better, including the identification of current and emerging social, environmental, and economic risks and opportunities. Vancity is committed to building sustainable communities where our members live and work through our values-based banking model, which is grounded in the local economy. We know that when we put the needs of our members and the communities we serve first, profit follows.”

—Mary Falconer, group controller, Vancity; see Appendix B for further information
Appendix A: Key Principles of Evaluating and Improving Governance in Organizations

The IGPG *Evaluating and Improving Governance in Organizations* (IFAC, 2009) established the following 12 principles of good governance practice.

a. The creation and optimization of sustainable stakeholder value should be the objective of governance.

b. Good governance should appropriately balance the interests of stakeholders.

c. The performance and conformance dimensions of governance are both important to optimize stakeholder value.

d. Good governance should be fully integrated into the organization.

e. The governing body should be properly constituted and structured to achieve an appropriate balance between performance and conformance.

f. The governing body should establish a set of fundamental values by which the organization operates. All those participating in governance should embrace these fundamental values.

g. The governing body should understand the organization’s business model, its operating environment, and how sustainable stakeholder value is created and optimized.

h. The governing body should provide strategic direction and oversight in both the performance and conformance dimensions.

i. Effective and efficient enterprise risk management should form an integral part of an organization’s governance system.

j. Resource utilization should align with strategic direction.

k. The governing body should periodically measure and evaluate the organization’s strategic direction and business operations and follow up with appropriate actions to ensure progress and continued alignment with objectives.

l. The governing body should ensure that reasonable demands from stakeholders for information are met and that the information provided is relevant, understandable, and reliable.
Appendix B: Extended Case Studies

UPS: CUSTOMER AND STAKEHOLDER FOCUS FROM THE PERSPECTIVE OF THE CFO

About UPS

Founded in 1907 in the US as a messenger company, UPS has grown into a multi-billion dollar corporation by focusing clearly on the goal of enabling commerce around the globe. Today, UPS is an international company with one of the most recognized brands in the world. UPS has become the world’s largest package delivery company and a leading global provider of specialized transportation and logistics services. Every day, UPS manages the flow of goods, funds, and information in more than 200 countries and territories worldwide. See the UPS website (www.ups.com) for additional information.

This case study is taken from UPS CFO Kurt Kuehn’s keynote address at the IMA 2009 Annual Conference and the UPS website.

Customer and Stakeholder Focus

“There was a decade in my career when I was doing engineering and finance where I did not talk to a customer at UPS. Ten years. And it didn’t seem like a problem to me. I guess that’s why eventually they put me in sales and marketing, so watch what you criticize. It was also a period in my engineering career where I never lost an argument with a salesperson because it came down to the tradeoff of operational excellence, financial results, and customer needs.

“At least at UPS in the ’80s, we were an operationally-focused company. The customer came second. And that isn’t right. The finance guy should lose some arguments with the sales guy. The engineer shouldn’t always prevail if it’s a tradeoff between customer needs and efficiency. Some of this is UPS’ history of being focused on operational excellence.

“But I expect there are bits of this trait within the finance function. We tend to like to throw rocks at the softer side of business. Put together a project, our cost numbers are going to be rock solid. The sales and marketing team will throw some fluff for revenue. We kind of shake our heads and that’s the way it is.

“And it’s great to have skepticism and credibility. On the other hand, just saying no doesn’t work if you’re trying to grow a prosperous business. So one of the big priorities I had as I moved into sales and marketing at UPS was to make sure that the company listened to its customers in a way we hadn’t before and that every function, including finance and accounting, our tax guys, our audit group, plays a role in understanding customer needs and how their piece of the puzzle meets those needs.

“It doesn’t mean that you spend all your time in customer meetings—although we’ve increased the amount of time spent directly with customers. What it really means, though, is how do you add value to customers even if you don’t meet one?

“Sometimes that’s a hard question to answer. It may be that you add value to customers by facilitating better processes for the people that do face them. Make sure the financial systems and measures that you have are supportive of effective sales execution and operation. It’s impossible for the sales people to get a price quickly if they don’t have visibility into profitability other than at the end of the month when we report it. Those are the kind of things that can hamper sales effectiveness. Are we there helping marketing understand the profitability of products? Is your managerial accounting relevant in driving value to customers?

“This stuff can be very powerful if you align financial insight, product design, and customer execution. You get all three of those lined up, there’s a synergy that can be extremely beneficial for customers and companies. Sometimes we just don’t ask those questions though.

“And make sure your cost initiatives aren’t coming at the expense of the customer. You do have to agonize over everything today. Clearly everything’s on the table—staffing, expenses, and product design issues. We’ve had some very serious internal discussions about redefining our product content to take cost out. Those things can be
beneficial if the customer doesn’t want to pay for them.

“I guess the way to think about it as you’re working and creating information around products for customers is to think of the customer sitting at the table there with you. And as you’re developing insight so your management team can make decisions, at least make sure that the voice of the customer is floating in the room. That way, even if you make decisions for short-term gain, you also think about the long-term implication for customers.

“Last but not least, make sure as you create performance reports and compensation systems you really understand the ramifications on both customers and shareowners. It’s a complex world and we’re trying to navigate between the rocks. You swing too far for the customers and the shareowners get a little upset that you’re gaining market share with no value. You only listen to shareowners and long term you’re destroying the customer goodwill that ultimately is what supports us all. So it’s an interesting process but I would challenge you to really ask yourself, is the voice of the customer in your function? Is it helping to guide decisions at least to the extent it should?”

**Implications for the Finance Professional**

“There’s a time to be the best in your specialty. There’s also a time to take that hat off, listen to what’s going on in the company, and have an impact. I think those are the times that we’re facing today—they cause you and your people to focus a little more on expanding their own charters. Then you can have a big impact within the company, and that’s really when the finance and the accounting function excel because these are times when we’re needed more than ever—whether it’s helping procurement processes; whether it’s getting good, clear information to management so they understand what really is happening; whether it’s separating fixed cost from variable; whether it’s understanding product profitability and which products are really relevant in today’s environment; whether it’s understanding customer profitability and which customers are irreplaceable and need to be protected and which customers are in a state of decline; or whether it’s looking at customer credit worthiness.

“There are a hundred things we can do to bring value to companies. Not all of them are listed in your day-to-day expectation of duties, and that’s why this is such an important time both to develop your own capabilities to address these issues and then, more importantly, to impact your company.

“So take the opportunity to broaden experience and understand more of the business and where finance’s role fits. The better you understand your company, the more relevant the information you provide can be. It’s great to be a professional expert. But if it isn’t relevant, if it isn’t actionable, and if it doesn’t help drive the right behavior, then the benefit is limited.”
provides a lens through which the board can probe the future route to creating value and sustaining performance. The mandate can then be used as a framework against which to judge transformational decisions, such as whether to make a major acquisition.

Professor Mervyn King, chair of the King Committee on Corporate Governance in South Africa and of the International Integrated Reporting Council and an international expert on corporate governance, has endorsed this concept, arguing that “it demonstrates that all board members are facing in the same direction, which should lead to more rational business judgment calls in the best interests of an organization and the maximization of its total value.”

**Boardroom Conversation**

The quality of the boardroom conversation is key to the development of the board mandate. The forum’s recent survey of 350 Financial Times and Stock Exchange (FTSE) non-executive board members found that the most common reasons for ineffective boardroom conversations are:

- dominant personalities/groups (79%);
- inappropriate allocation of time to discussion of matters requiring discussion or debate (52%);
- lack of preparation by board members and other attendees in advance of board meetings (50%); and
- unhelpful manner of presenting information to the board (46%).

Boards need to be alert to danger signs, for example, groupthink, and seek to develop

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8 Good Governance Forum, *Improving the Quality of Boardroom Conversations* (Tomorrow’s Company, 2012)

9 *Tomorrow’s Corporate Governance: Improving the Quality of Boardroom Conversations* (Centre for Tomorrow’s Company, March 2012). Survey was facilitated by Korn/Ferry and KPMG during December 2011 and January 2012.

10 According to social psychologist Irving Janis, groupthink occurs when a group makes faulty decisions because group pressures lead to a deterioration of mental efficiency,
effective responses. The professional accountant in business has a particularly important role to play in ensuring that the board receives the most insightful information to support better conversations and better decision-making (see Driver Eight: Effective and Transparent Communication).

Boards also need to understand the full extent of the risks affecting an organization’s viability, even those that are not easy to see and may be caused by the board itself. Recent research from Cass Business School investigating 18 high profile cases of “risk events” from the last decade, including the BP Texas City Refinery explosion of 2005 and the collapse of Northern Rock in 2007, identified seven key issues that are described as “dangerous underlying risks.” The most worrying aspect of these key issues is that few, if any, appear on conventional risk registers. This is largely because they relate to “softer” issues, such as inadequate leadership on ethos and culture, ineffective boards, organizational complexity, and change, as well as poor communication and information flows.

The problem is compounded by the fact that those responsible for risk management in the organization may not have the status and confidence to flag such risks, especially when they relate to the behavior of the board itself (see Driver Three: Integrated Governance and Risk and Control).

### The Board Performance Ladder

A useful framework for pulling these threads together is the board performance ladder, as developed by Sir John Egan, who has led a number of major companies in the UK including Jaguar Cars, BAA, and Severn Trent. He argues that boards have to evolve in stages, like climbing a ladder, as shown below.

<table>
<thead>
<tr>
<th>RUNG 3—TOP PERFORMING BOARDS</th>
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<tbody>
<tr>
<td>A top performing board adds value by achieving a full package of responsible activities, including:</td>
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<tr>
<td>• ethical decision-making;</td>
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<tr>
<td>• understanding the strategic environment;</td>
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<td>• understanding the needs of employees, customers and all those in the supply chain; and</td>
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<tr>
<td>• anticipating future events in an uncertain world.</td>
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<table>
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<tr>
<th>RUNG 2—GOOD BOARDS</th>
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<tbody>
<tr>
<td>A good board:</td>
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<tr>
<td>• consciously creates a culture of high performance and low risk;</td>
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<tr>
<td>• ensures a good line of sight to risk;</td>
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<tr>
<td>• considers it normal to challenge; and</td>
</tr>
<tr>
<td>• typically “walks the talk.”</td>
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<table>
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<tr>
<th>RUNG 1—OK BOARDS</th>
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</thead>
<tbody>
<tr>
<td>An OK board (most boards get this far):</td>
</tr>
<tr>
<td>• makes no mistakes;</td>
</tr>
<tr>
<td>• provides good papers on time;</td>
</tr>
<tr>
<td>• ensures there are no surprises; and</td>
</tr>
<tr>
<td>• can be bureaucratic.</td>
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<tr>
<th>RUNG 0—POOR BOARDS</th>
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<tbody>
<tr>
<td>A poor board:</td>
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<tr>
<td>• makes mistakes and poor decisions;</td>
</tr>
<tr>
<td>• is chaotic;</td>
</tr>
<tr>
<td>• is subject to intemperate behavior;</td>
</tr>
<tr>
<td>• faces surprises;</td>
</tr>
<tr>
<td>• provides very poor information; and</td>
</tr>
<tr>
<td>• has confused directors—who have information provided to them in an indigestible form.</td>
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</tbody>
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**Reality testing, and moral judgment.** Groups affected by groupthink ignore alternatives and tend to take irrational actions. A group is especially vulnerable to groupthink when its members are similar in background, the group is insulated from outside opinions, and there are no clear rules for decision making.

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Source: Governing for Performance: New Directions in Corporate Governance (CGMA, 2012)
UNILEVER: ACHIEVING EFFECTIVE AND INTEGRATED RISK MANAGEMENT AND INTERNAL CONTROL

About Unilever

Unilever is one of the world’s leading suppliers of fast-moving consumer goods with operations in over 100 countries and sales in 190. Consumers buy 170 billion Unilever goods around the world every year, and Unilever products are used over two billion times a day. The company has more than 171,000 employees and generated annual sales of €46.5 billion in 2011. Unilever has led the food producers sector in the Dow Jones Sustainability World Indexes for 13 consecutive years. For additional information, see the Unilever website (www.unilever.com).

The following information was provided by Unilever.

Background—Approach Prior to 2009

The primary building blocks to support effective internal control at Unilever were built up over our 100+ year history on the basis of independent operating entities with minimal direct executive management involvement from the corporate center. Risk management and internal control in Unilever were pervasive across all parts of the business with many aspects duplicated. This led to a framework that was inefficient and costly.

However, following structure changes beginning in 2005 as part of a program called “One Unilever,” the risk profile changed dramatically, driven by significant re-organization and alignment to a more centralized, vertically-integrated business. By 2009, the model had evolved with the following characteristics:

- risk management as a separate, standalone activity led by the finance function;
- risk management embedded within the business at the country level as a set of standalone processes, such as business risk assessment, entity level assessment, and operational control assessment; and
- most people didn’t recognize that the decisions they make every day represented the most important risk management activity in Unilever.

By 2009, we recognized that risk management as a standalone, country-based model was no longer appropriate for the business and a working team was tasked with developing a new approach that would turn risk management into a fully integrated, simplified, risk management process. Unilever calls this new process “Embedded Risk Management.”

Embedded Risk Management—The Current Approach

At Unilever we believe that effective risk management is fundamental to good business management and that our success as an organization depends on our ability to identify and then exploit the key risks and opportunities for the business. Successful businesses take/manage risks and opportunities in a considered, structured, controlled, and effective way. Our risk management approach is embedded in the normal course of business. It is “paper light—responsibility high.” Risk management is now part of everyone’s job, every day! It is no longer managed as a separate standalone activity that is “delegated to others.”

We define our approach to risk management in terms of:

1. The Structural Elements of our Embedded Risk Management Approach
2. The Nine Principles of Risk Management

Managers must live these principles in the normal course of running their part of the business. This means that the principles must be embedded in all our everyday operations and activities throughout the year.

3. The Corporate Risks and Key Business Controls Catalogue

Unilever has developed a Risk Catalogue of the key risks identified in the business. It is used as an important sense-check for senior management to ensure that there are no “cracks” in their risk management approach. The risks are divided into three sections: strategic, operational, and financial. The catalogue:

- identifies/defines the main corporate risks faced by the business;
- sets out the key business controls that senior management believe should operate in order to ensure that the corporate risks are managed effectively (as a result, the business will have the best opportunity of achieving its objectives and maintaining its reputation);
- identifies the individuals who are responsible for ensuring that the key business controls are operating as required;
- provides senior management with a useful means of reflecting on the corporate risks and key business controls for which they are responsible and assessing whether they remain relevant, effective, and efficient; and
- can be used to support confirmations to the Unilever executive leadership and the Board that, overall, the key/corporate risks for Unilever are being managed responsibly and there are no significant gaps in the key business controls.

9 Principles of risk management

1. Set clear objectives
2. Identify the risks
3. Assign responsibility
4. Understand how the risks are managed
5. Monitor progress
6. Does more still need to be done?
7. Step back and review “in the round”
8. Think ahead, look outside etc.
9. Escalate significant risks
VERAFIN: HOW THE FINANCE FUNCTION SUPPORTED A HIGHLY INNOVATIVE STARTUP

About Verafin

Founded in Canada in 2003, Verafin adapted robotic technology designed for the mining industry to help fight financial crime. As a result of the innovation efforts between Verafin and a number of IT experts in the banking industry, as well as the ability of the Verafin financial team to engage with potential funders and other stakeholders, develop internal control and reporting systems, manage resources, and execute its launch plan, Verafin is now a leading provider of anti-money laundering and fraud detection software in North America. For additional information, see the Verafin website (www.verafin.com).

The following information was provided by Verafin during an interview with IFAC staff.

Funding Requires a Sound Business Plan

According to early investor David Kelly, his initial angel investment didn’t necessitate hard business plans, but rested mainly upon his trust in Verafin’s co-founders, and their belief in the product they were developing. However, subsequent rounds of financing were only successful because Verafin’s financial team had subsequently developed the capabilities to demonstrate financial controls over the business and accurately managing expectations.

As Mr. Kelly noted, “The need to fund our growth through the initial breakout period into a product life cycle involved heavy lifting by our financial team. The second round of investment needed to attract substantially more funds to expand beyond its initial Canadian market.

“When venture capitalists weighed Verafin’s opportunity against opportunities to invest elsewhere, our financial team’s incredible innovative ability to articulate Verafin’s plans and achievements, and in both financial and non-financial metrics, were paramount to the attainment of additional financing.”

Financial Innovation to Back up Business Model Innovation

In addition to securing additional investment capital, the Verafin financial team recommended an innovative but dramatic change in the business model—changing from a one-time licensing fee into a recurring-revenue stream.

At the moment of transition, the company was growing at a rate of more than 50% per year—in terms of workload, product expansion, employees, and customers. Therefore, this dynamic shift to recurring revenue presented a major hurdle—in the simplest terms, one-time license revenue recognized in a single financial period was now being spread over three to five financial periods. On the other hand, growth costs were reflected in the same period as the workload.

Using a strategic adaptable financial management strategy to manage cash through this transition, Verafin was able to move forward to a positive cash flow position from its day to day operations.

Innovation and Adaptation Never Stop

With continuing growth, the Verafin financial team is again ready to reinvent itself to a new level by migrating toward a recurring revenue model, utilizing on-line computing (SaaS) rather than in-house or service-bureau computing to gain a further competitive advantage. Mr. Kelly notes, “Innovation and adaptability in our industry is paramount to future success and with our growth rate, we are constantly adding a new resource wherever such resources can be found.

“In 2011, our financial team adapted our business to handle the establishment of a US operation with remote development and support teams and different accounting practices. The transition has been seamless and a major contributor to our successful 2011 performance. Financial management, good governance, and innovative adaptability of all business units, including finance, are the cornerstones to any great business and nowhere is that more clearly demonstrated that in the life story of Verafin.”
**HONG KONG HOSPITAL AUTHORITY: INTEGRATED FINANCIAL MANAGEMENT**

**About the Hong Kong Hospital Authority**

The Hong Kong Hospital Authority (HA) offers highly subsidized public healthcare services to the Hong Kong Special Administrative Region’s seven million inhabitants. The HA currently manages 41 public hospitals/institutions and 123 outpatient clinics. In 2011-2012, the annual operating expenditure of the HA reached over US$5 billion. Guided by its mission of “Helping People Stay Healthy,” the HA collaborates with community partners to strive for continued success and work toward the vision of “Healthy People, Happy Staff, and Trusted by the Community.” To achieve its vision and mission, one of its strategic priorities is “Maintaining Financial Sustainability.” For additional information, see the [HA website](http://www.ha.org.hk).

The following information was provided by HA CFO Nancy Tse during an interview with IFAC staff.

**Maintaining Financial Sustainability in the HA—An Integrative Approach**

“In a clinician-led healthcare organization, striking a balance between ensuring control over the proper use of public money whilst maintaining clinicians’ autonomy in exercising professional judgment in determining the best appropriate treatment for patients is always a key challenge faced by finance professionals.

“The key to success for finance is to become a valued and trusted partner with our colleagues. As a first important step, securing stakeholder engagement is of utmost importance in a large organization like HA with 60,000 employees (including 5,000 doctors and over 20,000 nurses). In order to successfully drive governance change in financial management in HA, we always adopt a participative approach to ensure decisions are made in an open and transparent manner.

“Of equal importance for the finance function is to ensure the upkeep of our quality services. While exercising professionalism and integrity in delivering our financial services remains our cornerstone, we adopt a broad view to understand our business environment. Not only do we consider the internal needs of our organization, but we also give due regards to the impact of the community’s ever increasing demand on HA as the major public healthcare service provider in Hong Kong.

“Contributing toward the long-term financial sustainability of the organization, the finance function in the HA plays a key role at three levels:

a. at the strategic level, proactive financial planning for strategy formulation to secure the resources required for provision of quality services (e.g., ensuring the HA’s long term financial sustainability);

b. at the operational level, driving for optimal allocation of resources to support organization objectives and dovetail with service needs; and

c. at the stewardship level, ensuring existence and effective functioning of financial management and systems of internal control to ensure accountability in the proper use of public money.

**Strategic Decision Support**

“Like other healthcare providers around the world, the HA is facing limited funding on one hand, but virtually unlimited demand for medical services on the other as a result of a growing and aging population, evolving epidemiology with intensifying disease burden, and higher public expectations, as well as escalating cost from continuous advancement of medical technology. In setting forth future strategies and priorities to address these key challenges, HA formulates medium-term Strategic Service Plans, which incorporate not only internal stakeholders’ input from different levels across the organization but also the views and concerns of external parties, such as representatives from patient groups and other non-

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government healthcare organizations. Being able to accurately articulate the financial requirements arising from these emerging challenges is, therefore, of strategic importance to the HA for securing funding from the government to sustain its delivery of quality patient care in the long run.

“In the HA, an integrated participative financial planning process is put in place by finance. Working in partnership with stakeholders of different disciplines, implications of these challenges on HA’s service delivery model, throughputs and resource requirements (in areas such as manpower, pharmaceutical supplies, medical equipment, facilities, and other infrastructure support) are assessed. Through robust financial modeling and analysis, these service and resource information are “translated” into dollar terms to reflect the medium- to long-term financial requirements of the HA for its funding liaison with the government.

Corporate Management

“In a healthcare organization, ensuring effective allocation of limited resources among competing demands while maintaining the delivery of the best care to patients is a key challenge. In this regard, budget planning plays a critical role in aligning resource allocation to dovetail with the HA’s service priorities and needs.

“With the overarching framework provided by the Strategic Service Plans, stakeholders of different levels and disciplines within HA, from frontline clinicians to hospital management and head office executives, gather every year as part of the annual planning process to discuss service needs, prioritize areas of focus, and agree on resource requirements for each of the seven “operating divisions” (i.e., hospital clusters).

“One of the key roles of finance in the HA is the development of an Internal Resource Allocation System to promote productivity and quality improvement through a fair and transparent mechanism.

Prior to 2009-2010

“In the early days of the HA, resource allocation to public hospitals was primarily based on a history of need. Refinements were made in 2003-2004 to an output-based approach where budgets were allocated to the seven hospital clusters based on their respective population share.

“However, the system was criticized for its lack of transparency and fairness. Additionally, patient age and population demographics alone did not adequately reflect the variation in resource requirements across hospitals due to difference in complexity of treatments and mix of patients. The model also provided little incentive for continuous quality improvement.

2009-2010: A New Start

“A new pay for performance (P4P) internal resource allocation system was implemented in 2009-2010 with a view toward ensuring new funding from the government is effectively allocated to the following three strategic priority focus of the HA:

• growth in targeted activities (G);
• quality and safety improvement (Q); and
• service, technology and workforce enhancement (STW).
P4P Framework

“Supported by a well-defined organization/accountability structure and a suite of corporate-wide, fully integrated financial IT systems, this framework consists of a set of financial policies that provide guiding principles on the processes and internal controls of the HA’s financial and accounting operations.

“A transparent accountability reporting structure is also in place at the HA to provide relevant, reliable, and timely reporting of financial information, both internally to different levels of executive management and the HA Board as well as externally to the government and the public, in discharging HA’s stewardship role in the proper use of public funds.”

Financial Management

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Financial Management

“To facilitate effective financial management in a large and highly decentralized organization like the HA, comprised of different management layers from local operation to corporate levels, the HA established a robust financial management and regulatory framework to ensure there is proper monitoring and accountability of resource use throughout the organization.
SUNWAY GROUP: INTEGRATING GOVERNANCE INTO PEOPLE AND TALENT MANAGEMENT

About the Sunway Group

From a small tin-mining company established in 1974, Sunway has become one of Malaysia’s leading property-construction groups, with established businesses in more than 40 locations worldwide. Sunway Group’s core businesses consist of an integrated properties division, which is a consolidation of its property development, hospitality, retail, leisure, and commercial properties in Malaysia and overseas. Other divisions include construction, trading and manufacturing, quarry, building materials, healthcare, education, and information technology.

Sunway ranked sixth in the Hewitt-Fortune-RBL Top Companies for Leaders 2007 ranking in recognition of its unflinching commitment to human capital management. Sunway was also recognized for excellence in its practice of corporate governance with the 2011 Malaysian Business-Chartered Institute of Management Accountants Enterprise Governance Awards. For additional information, see the Sunway Group website (www.sunway.com.my).

The following information was provided by Sunway during an interview with IFAC staff.

Nurturing Effective and Ethical Leadership

“Sunway has three core values that support effective and ethical leadership—excellence, motivating leadership, and integrity,” says Sunway’s founding Executive Chairman, Tan Sri Dato’ Seri Dr. Jeffrey Cheah.” These are:

• excellence, defined as “we have only one standard—excellence;”
• motivating leadership, defined as “we will lead by example;” and
• integrity, defined as “we will conduct ourselves professionally and ethically.”

“Based on these three core values, it is expected that all Sunway employees pursue excellence in their daily work by conducting themselves in a professional and ethical manner and demonstrating the right values and behaviors to others in the organization.”

This is particularly true for development of the professional accountants performing many tasks in various leadership roles within Sunway.

Sunway’s new recruits must attend the Sunway Corporate Orientation Program during which employees are educated on the core values, their meaning, and how they translate to every employee’s day to day work.

In addition, Sunway has a set of Sunway Leadership Criteria (SLC), which have the same core values embedded in the description of the type of leadership behavior expected at all levels of employees in the organization. Specifically, one of the SLCS is “leading others”—setting direction, engaging and influencing others to work toward the organization’s goal, and leading with integrity.

The Sunway performance management process, Managing for Excellence (MFE), stipulates that performance of each employee is measured through quantitative and qualitative measures. The qualitative measure refers to evaluation against core competencies. Positive behaviors are recognized through tokens of appreciation and widely broadcasted to the rest of Sunway so that all employees are aware and encouraged.
Sunway is among the first corporations in Malaysia to have signed an Integrity Pact, and accountants are integral in ensuring the Sunway Group complies with the requirements of the pact and carries out its businesses ethically.

Sunway accountants also play a major role in the annual business planning process, actively participating in decision making and strategizing, preparing the budget for the future, and ensuring financial resources are available for the execution of plans under the business plan. After the budgeting process, accountants are also responsible for monitoring actual performance against the budget and highlighting deviations to ensure continued performance. In monitoring performance, benchmarking against competition is also often used, with accountants providing the financial comparisons needed.

Sunway has two senior management committees dedicated to determining the strategic direction for the company as well as appraising the feasibility of new investments—the Strategic Direction and Investment Committees. To help these committees arrive at their decisions, accountants prepare detailed financial feasibilities, examine and verify key assumptions, perform cost benefit analyses, and ensure hurdle rates are met before making new investments.

Sunway has a defined Enterprise Risk Management (ERM) Policy and an ERM structure comprising the Risk Management Committee, Risk Working Committee, and a Group Risk Management Department (GRMD) led by the Group’s Chief Risk Executive Officer. Accountants play a key role in supporting the GRMD’s identification of key risks affecting their business units and the compilation of appropriate mitigation plans.

Meanwhile, for performance management, senior accountants within the group, such as

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An Integrity Pact is a tool for preventing corruption in public contracting, developed by Transparency International.
the CFO, play a role in devising key performance indicators (KPIs) for the senior management. Accordingly, remuneration and bonuses are then determined based on the achievement of these KPIs, which have a certain percentage tied to achievement of medium- to long-term goals. Such initiatives that strive to align employee’s interest with the long-term sustainability of Sunway’s bottom line will continue in the future, with an upcoming Employee Share Option Scheme also likely to reward employees based on sustainable profitability.

**Continuous Development for Sunway’s Professional Accountants**

To prepare its accountants for the many tasks expected of them, Sunway provides continuous and structured training in multiple disciplines, including leadership, communication, and other soft skills to make accountants better partners with the PCMs. Some accountants are also given mentoring sessions with various senior management leaders to share experiences and business strategies with the goal of instilling business-savvy accountants with strong commercial insight into the organization. To reinforce this, accountants are offered opportunities for rotation to different business units to gain a variety of industry experiences. Indirectly, this will also strengthen the checks and balances role of accountants as they become less attached to their business units and are more able to be independent verifiers.

As professionals, Sunway’s accountants are expected to constantly keep abreast with changes in legal and tax regulations, accounting standards, and corporate governance best practices. They will, therefore, help ensure that Sunway is in compliance with industry best practices and avoid any breach in regulations. This has been particularly useful in recent years with an influx of transformational regulation changes, such as the introduction in Malaysia of the Anti-Competition and Whistle-Blowing acts.
TATA MOTORS: HOW THE FINANCE FUNCTION SUPPORTS OPERATIONS

About Tata Motors

Tata Motors Limited, part of the Tata Group, is India’s largest automobile company, with consolidated revenues of US$32.5 billion for 2011-2012. It is the leader in commercial vehicles in each segment and among the top three in passenger vehicles with winning products in the compact- and midsized-car and utility-vehicle segments. It is also the world’s fourth largest truck and bus manufacturer. Tata Motors Group’s 55,000+ employees are guided by the vision of being the “best in the manner in which we operate, best in the products we deliver, and best in our value system and ethics.” The company won the Golden Peacock Award for Excellence in Corporate Governance for 2011 in recognition of the company’s high standards of governance processes and practices. The commercial vehicle business has been rated at Level 5 (exemplary) in the CII Cost Maturity Model assessment, the only company in India to be rated at the highest level. Tata Motors has also been conferred with the Best Audit Committee Award 2011 by the Asian Centre for Corporate Governance and Sustainability. Additionally, Tata Motors investor relations team received second place in the Best Investor Relations category in a 2012 All-Asia Executive Team Survey conducted by Institutional Investor magazine. For additional information, see the Tata Motors website (www.tatamotors.com).

The following information was provided by Tata Motors.

Developing Operational Budgets and Performance Outlooks

In Tata Motors, the Finance Department works hand in hand with various front-line functions and operational staff to achieve excellence across the value chain. One of the means used by Tata Motors’ management accountants to achieve excellence is its robust budgetary control process. The budget is not only the job of the finance function—every organizational level takes ownership of the budget. The budget for each financial year follows a very robust and stringent development and review mechanism. After getting input from all the departments, a first cut is prepared and presented to the business heads. After their approval, the budget is reviewed and approved by the management committee, which includes the managing director, business heads, CFO, and plant heads. The budget then goes to the executive committee of the board and, finally, is approved by the board. Monthly performance is compared against the targets in the budget and all necessary steps are taken to reduce any gaps.

In addition to the budget, the finance staff also develops a periodic outlook based on this latest market trend and forecasts. The outlook is used to implement actions for bridging gaps in the budget.

Supporting Operational Functions

• Sourcing Support

The Finance Department monitors material cost, including logistics and cost reduction through value engineering, supplier negotiation, and volume driven reduction. In addition, the Finance Department is actively involved in the hedging process for imports.

• Manufacturing Support

The Finance Department plays a key role in improving operational efficiency in the following areas:

- **variable conversion cost** is maintained by driving a control mechanism in each shop that tracks the development of key parameters for indirect materials, spares, tools, and power; these numbers are then integrated with plant-based reporting against budget targets;

- **fixed overhead** is established by working with “champions” from within the business to optimize fixed costs and establish a lean manufacturing model, which ensures that the company is better protected against risks associated with downturns or recession; and

- **productivity** is enhanced through improvement of operational performances...
using regular analysis and reporting of key non-financial performance parameters, such as productivity, wastage, plant utilization, and product cycle time.

- Marketing and Sales Support
  The Finance Department also supports the Marketing and Sales teams in the process of product pricing, as well as in the optimization of the outbound logistic costs. In addition, the Finance Department collaborates with the Marketing team in tracking the bottom-line contribution of every product.

- Continuous Improvement
  The Finance Department also actively participates in various improvement initiatives, such as Lean Quality Management, Six Sigma, Poka Yoke, and Kaizen. The benefits from these initiatives are evaluated by the Finance Department and tracked in performance reporting.

- Benchmarking
  The Finance Department compares Tata Motors’ performance with peer-group companies with a view to identifying opportunities for improvement.

**Balanced Scorecard for the Finance Department**

The Finance Department introduced a Balanced Scorecard (BSC) for its function, which is designed to be “a pro-active change agent by partnering the business in creating value for all stakeholders through a highly-motivated team and world class processes.” Implementation of the BSC requires the finance function to engage in enterprise benchmarking for business performance, cost, price, business model, and financial performance. The BSC also includes metrics that target and track internal and external customer satisfaction, the finance function’s capability to effectively analyze and communicate business performance, and act as a change agent for the business. Several metrics for capturing and tracking these have been put in place and monitored regularly.

**Reporting Operational Results/Performance**

The Finance Department generates a large number of periodic operations reports for various internal stakeholders, all of which are designed in consultation with end users. Examples of reports and their contents include:

- to the board: performance report, budget review, and strategy updates;
- to the audit committee: performance report, concern areas and risks related to operations, statutory compliance, etc.;
- to management: performance summaries and details, dashboards, and outlooks; and
- to all employees: performance summary information.

Finally, the Finance Department also enables all information sharing with external stakeholders, such as monthly sales reports and reports to regulatory and other agencies. The Finance Department takes the responsibility and lead in communications with investors, publication of the annual report, and quarterly financial results.
VANCITY: EFFECTIVE AND TRANSPARENT STAKEHOLDER COMMUNICATIONS AND ENGAGEMENT

About Vancity

Vancity is a Canadian member-owned full-service financial institution serving the residents of British Columbia through 58 branches located in the Vancouver area, the Fraser Valley, Squamish, and Victoria. It has C$16.1 billion in assets, more than 479,500 members, and a vision to redefine wealth to not only support the financial wellbeing of its members but also the economic, social, and environmental wellbeing of its members’ communities.

Through its wholly-owned subsidiary, Citizens Bank, the financial cooperative operates in Calgary, Toronto, and Vancouver. The credit union’s primary lines of business include retail and business banking (deposit taking and lending) and commercial mortgage lending. Vancity’s lines of business also include real estate development and foreign exchange, life insurance, credit cards, and investment advisory services.

To help achieve its vision, Vancity is a member of the Global Alliance for Banking on Values, a network of the world’s leading sustainable banks that share the commitment to triple-bottom-line impact through responsible banking practices. It’s also a certified Living Wage Employer, carbon neutral, and recognized as a global leader in organizational transparency and accountability. For additional information, see the Vancity website (www.vancity.com).

The following is from an interview with Mary Falconer, group controller for Vancity.

Committed to Effective Stakeholder Engagement

“Sustainable banking at Vancity begins with our vision to redefine wealth. We view wealth in a holistic way that takes into consideration the overall wellbeing of our members. It includes not only their financial wellbeing but their social and environmental wellbeing as well. Vancity is strongly committed to effectively engaging with its stakeholders to understand and respond to their key concerns and expectations, and to supporting innovation. It is also committed to reporting the key findings from engagement, along with Vancity’s responses, in an integrated annual report prepared to the highest standards of transparency. I believe there is a great opportunity for professional accountants to support and advocate for a stakeholder-informed, broad, and long-term approach to managing a business.”

Driven from the Top

“Our journey to an integrated annual report and our growing commitment to stakeholder engagement have been true learning and growing experiences within Vancity. When it comes to such factors, many of my colleagues in other organizations encounter challenges trying to get their senior leaders and board directors involved. Our board and audit committee, however, have been a driving force behind these processes as they believe these will result in a better-managed business.”

Various Forms of Stakeholder Engagement

“We are a cooperative organization, so by our own structure we are very connected with our members and communities. Our members own us, elect our Board of Directors, and also live in the communities in which we operate. These factors make our members our most important stakeholder group. A lot of the information we use for our business strategy, planning, operations, and reporting is collected through stakeholder engagement processes—some of them formal, others more informal. For example, we conduct various focus groups, surveys, and interviews throughout the year. Additionally, many of our employees are actively involved in their communities through their day-to-day work, or through specific Vancity-supported programs and events.

“We are also exploring other forms of stakeholder engagement, for example, through the use of social media. We recently launched a Facebook page, which we hope to use to engage people in discussions on topics that matter to them and their communities. And in the near future we
and we are guided by the AA1000 principles of inclusivity, materiality, and responsiveness.  

**A Circular Process**  
“We think of stakeholder engagement as a circular process. We gather feedback and insights through various engagement tools. In this way, we are better able to understand the concerns and expectations our stakeholders have on their mind at that moment. We present these findings to our senior management team to support them in understanding what our stakeholder needs are, which in turn supports them to better define our business objectives and set our strategic priorities. Through the planning process, senior management establishes formal targets and commitments, which we subsequently include in our integrated annual report. We also report back on the progress we have made on these targets and commitments each year.”

Examples of stakeholder engagement from 2011 can be found in *Vancity’s 2011 Integrated Annual Report* in the following categories:  
- key relationships and resources, page 22;  
- enhancing members’ wellbeing, page 34-37;  
- employee experience, page 56; and  
- sustainable purchasing, page 60.

**Role of the Finance Team**  
“The finance team supports Vancity’s senior management adherence to the highest levels of organizational accountability and transparency as per the reporting standards we have chosen to follow. In addition to meeting International Financial Reporting Standards (IFRS), we prepare our annual report in accordance with the Global Reporting Initiative’s Sustainability Reporting Guidelines and we are guided by the AA1000 principles of inclusivity, materiality, and responsiveness.”

“We are participating in the International Integrated Reporting Council’s Pilot Programme and through this we are working to incorporate key elements and principles from the emerging integrated reporting framework into our planning and reporting practices. We also support the external assurance process, and we recently supported our Board’s appointment of one firm (instead of the current two firms) to provide combined assurance over key financial and sustainability data, information, and principles beginning in 2013. In this way, finance brings to the forefront the various reporting requirements, such as materiality, which is determined through a strong stakeholder engagement process. In addition, we are also extensively involved in the planning and preparation of the integrated annual report and other relevant corporate communications to meet the information needs of our stakeholders, including regulators.

“Finance is not alone in this work. One of the benefits of integrated reporting is it breaks down traditional operating silos—true integration requires people across the whole organization engage and interact with each other. There is, for example, a separate team with expertise in sustainability reporting that has a dotted-line relationship with the finance team. We collaborate on the application of the sustainability and integrated reporting standards. For me personally, the engagement and learning that I have experienced from my colleagues in other areas has been tremendous and it has resulted in my ability to look at the business and our financial results in a different way.”

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14 AA1000 is a series of principles-based standards issued by AccountAbility to help organizations become more accountable, responsible, and sustainable (see www.accountability.org).
Focus on the Integrated Annual Report

Each year, Vancity holds member and employee focus groups to inform the development of its next integrated annual report. These groups are facilitated by an external party and our financial auditors and sustainability assurance providers are invited to observe the groups.

Participants are asked various questions about the report post publication, including:

• What were your first impressions of the report?
• What content elements did you like or not like?
• Is the report missing something important?
• Is the report credible and why/why not?
• Does the report respond adequately to the issues raised?

An external facilitator summarizes the information and distributes it among senior management and those who prepare the integrated annual report to inform plans and ensure future reports meet stakeholder expectations.

Lessons for the Professional Accountant

“Participating in creating an integrated annual report (versus a traditional annual report) has taught me that it is necessary to understand what is really important to our stakeholders. This has ultimately changed my view on what information should be used to inform strategy and planning, and what we should report on as an organization—to really explain our results in terms of both financial as well as non-financial performance. Pure financial results do not tell the whole story. Some organizations might not be as financially profitable as other organizations in the short term, but the story behind that could be that they are operating more responsibly, and in a way that meets the needs of their key stakeholders, which could lead to greater success in the long term.

“Our understanding of our non-financial performance and impact, and its relationship to our financial performance, is only going to develop further. There is a necessity for the accounting profession to have a broader education so they can understand non-financial issues and integrate them with financial aspects. In this way, accountants will be able to play a key role in influencing underlying reporting structures, processes, and systems to support organizations to prepare for truly integrated thinking and reporting.”
Appendix C: Definitions

- **Governance:** the set of responsibilities and practices exercised by the governing body with the goal of: (a) providing strategic direction; (b) ensuring that objectives are achieved; (c) ascertaining that risks are managed appropriately; and (d) verifying that the organization’s resources are used responsibly. This definition reflects both the performance and conformance aspects of governance.

- **Governing body:** the person(s) or body (e.g., a board of directors) with primary responsibility for overseeing: (a) the strategic direction of the organization and (b) the accountability of the organization. This includes overseeing the financial reporting process. Governing bodies can be made up of independent and non-independent directors and can have various subcommittees, such as the audit, remuneration, and ethics committees. For some entities in some jurisdictions, the governing body may include management personnel, executive members of a governance board of a private or public sector entity, or an owner-manager.

- **Integrated governance system:** the integration by the governing body and subsequent levels of management of governance into strategy, management, oversight, and accountability, in order to achieve sustainable organizational success.

- **Conformance:** compliance with laws and regulations, best practice governance codes, accountability, and the provision of assurances to stakeholders in general. The term can refer to: (a) internal factors defined by the officers, shareholders, or constitution of an organization as well as (b) external forces, such as consumer groups, clients, and regulators.

- **Performance:** the policies and procedures that: (a) focus on opportunities and risks, strategy, value creation, and resource utilization and (b) guide an organization’s decision making.

- **Stakeholder:** any person, group, or entity that has an interest in an organization’s activities, resources, or output, or that is affected by that output. Stakeholders can include shareholders, debt holders, employees, customers, suppliers, regulators, advocacy groups, governments, and society.

- **Stakeholder value:** the organizational value that is generated for stakeholders by creating, implementing, and managing effective strategies, processes, activities, assets, etc. Sustainable value creation for stakeholders occurs when the benefits to them are greater than the resources they expend. Value is generally measured in financial terms, as in the case of shareholders, but it can also be measured as a societal or environmental benefit, as in the case of both shareholders and other stakeholders.

- **Internal control:** the term “internal control” can have multiple meanings, including:
  - A system or process: the entirety of an organization’s system of internal control, i.e., an organization’s internal control system.
  - An activity or measure: the actual measure to treat risks and to effectuate internal control, i.e., individual internal controls.
  - A state or outcome: the outcome of the internal control system or process, i.e., an organization achieving or sustaining appropriate or effective internal control.

  See *Evaluating and Improving Internal Control in Organizations* for a more detailed definition.

- **Internal control objective:** the desired level of internal control, achieved by treating the risks an organization faces in accordance with its risk management strategy and policies on internal control while also achieving the organization’s objectives.

- **Risk:** “the effect of uncertainty on objectives,” which can be positive or negative, according to the International Organization for Standardization (ISO)’s *Standard 31000:2009—Risk Management* (see Appendix D).
• **Risk management**: the “coordinated activities to direct and control an organization with regard to risk”, according to ISO Standard 31000:2009—Risk Management (see Appendix D).

• **Integrated governance, risk management, and internal control**: the integrated parts of an organization’s overall governance system that is:
  - effected and understood by the organization’s governing body, management, and other personnel;
  - applied in strategy setting, both across the organization’s operations and in its stakeholder communications;
  - designed to help its users identify, analyze, and evaluate risks that might create uncertainty for the achievement of the organization’s objectives;

• in order to:
  - treat those risks to be in line with the organization’s risk management strategy and policies on internal control; and
  - provide reasonable assurance regarding the achievement of organizational objectives and proper disclosure regarding the effectiveness of the risk management and internal control systems.

• **Tone at the top**: the words and deeds of an organization’s governing body and (senior) management that to a large extent determine its values, culture, and the behavior and actions of individuals. The term is also described as “leading by example” or “walk(ing) the talk.”

• **Useful information**: the information that is relevant to users and faithfully represents what it purports to represent. The usefulness of information is enhanced if it is comparable, verifiable, timely, and understandable.
Appendix D: Important Sources of Information

This list of resources is not intended to be exhaustive. Use the IFACNet at www.ifacnet.com and the IFAC website to search IFAC and many of its member body websites for additional resources.

IFAC RESOURCES

- The IGPG Evaluating and Improving Governance in Organizations (2009) includes a framework—consisting of a series of fundamental principles, supporting guidance, and references—for how professional accountants can contribute to evaluating and improving governance in organizations.

- Competent and Versatile: How Professional Accountants in Business Drive Sustainable Organizational Success (2011) outlines the diverse roles of professional accountants in business and the many ways they serve their employers and the public interest.

- The IGPG Evaluating and Improving Internal Control in Organizations (2012), establishes a benchmark for good practice in maintaining effective internal control in response to risk, and help professional accountants in business and their organizations create a cycle of continuous improvement for their internal control systems.

- The IGPG Defining and Developing an Effective Code of Conduct for Organizations (2007) helps organizations encourage an ethics-based culture and define and develop a code of conduct. It also refers to the most significant resources in this area.

- The proposed IGPG, Eleven Principles for Effective Business Reporting Processes, (2012) establishes a benchmark for good practice in implementing effective business reporting processes in an organization. The proposed guidance helps professional accountants in business and their organizations create a cycle of continuous improvement for their business reporting processes to assist stakeholders in making informed decisions about the organization.

- Integrating the Business Reporting Supply Chain (2011) features the recommendation from 25 prominent business leaders on what should be done to effectively improve governance (including risk management and internal control), the financial reporting process, audit, and the usefulness of business reports in the aftermath of the financial crisis of 2008. The report provides a summary of interviewees’ recommendations in each area and highlights some of IFAC’s related initiatives.

- Global Survey on Risk Management and Internal Control—Results, Analysis, and Proposed Next Steps (2011) contains over 600 responses from around the globe and provides an analysis of survey results and summarizes respondents’ recommendations for the next steps in this area.

- The updated Sustainability Framework 2.0 (2011) consolidates the important aspects of embedding sustainability into the DNA of an organization and can be applied to entities of all sizes and complexities. The Framework focuses on the integration of sustainability factors from three perspectives—business strategy, operational, and reporting—and highlights the important roles that professional accountants play in facilitating the sustainable development of their organizations.

- The Crucial Roles of Professional Accountants in Business in Mid-Sized Enterprises (2008) features interviews with 10 senior-level professional accountants in business on their experiences in mid-sized enterprises. The interviews foster a better understanding of the unique challenges that mid-sized enterprises confront and how professional accountants in business help address these challenges.

IFAC MEMBER BODY RESOURCES

- The Association of Chartered Certified Accountants’ survey The Value Creation Model for Business: 2010 and Beyond (2010) revealed that global business leaders expect finance professionals to take on a more strategic role. It also shows accountants will bring greater oversight and supervision in an increasingly global regulatory environment, and help organizations manage risk more effectively.
• The Chartered Institute of Management Accountants (CIMA) report *Building World-Class Businesses for the Long Term—Challenges and Opportunities* (2011) investigates what a long-term approach looks like in practice and the challenges faced by companies that want to lengthen their horizons and create sustainable enterprises.

• The Chartered Global Management Accountant (CGMA), a joint venture of the American Institute of Certified Public Accountants and CIMA, report *Governing for Performance—New Directions in Corporate Governance* (2012) argues that while there has been considerable attention on issues such as the structure of the board and its committees, there needs to be more emphasis on how well the board oversees strategy and risk, as well as the appropriate behaviors required to fulfill this task effectively.

• The CIMA and Accenture report *Sustainability Performance Management: How CFOs Can Unlock Value* (2011) looks at how robust sustainability performance management, guided by finance professionals, can be a key tool in using sustainability to drive significant business benefits. The report says that embedding sustainability throughout an organization and its strategy and operations can drive value in revenue generation, cost control, building trust, and risk management.

• The Institute of Chartered Accountants in England and Wales’ report *Reporting Business Risks: Meeting Expectations* (2011) analyzes problems with risk reporting and recommends how it can be improved in practice.

**THIRD PARTY RESOURCES**


• *Corporate Governance in the Wake of the Financial Crisis: Selected International Views* (United Nations Conference on Trade and Development, 2011) includes a chapter from IFAC summarizing how professional accountants support effective governance in organizations and listing various actions that IFAC has undertaken in this space.

• The European Corporate Governance Institute website provides an extensive overview of the various national governance codes.

• Drawing on lessons learned during the financial crisis, *Principles for Enhancing Corporate Governance* (Basel Committee on Banking Supervision, 2010) set out best practices for banking organizations. Key areas of particular focus include: the role of the board; the qualifications and composition of the board; the importance of an independent risk management function, including a chief risk officer or equivalent; the importance of monitoring risks on an ongoing firm-wide and individual entity basis; the board’s oversight of the compensation systems; and the board and senior management’s understanding of the bank’s operational structure and risks.


• *Standard 31000:2009—Risk Management* (International Organization for Standardization, 2009) sets out principles, a framework, and a process for the management of risk that are applicable to any type of organization in the public or private sector. It does not mandate a “one size fits all” approach, but rather emphasizes the fact that the management of
risk must be tailored to the specific needs and structure of the particular organization.

- **Practice Statement on Management Commentary** (International Accounting Standards Board, 2010) provides a broad, non-binding framework for the presentation of management commentary that relates to financial statements prepared in accordance with IFRS.


- **Sustainability Reporting Framework** (Global Reporting Initiative) provides organizations with comprehensive reporting guidelines and feature sustainability disclosures organizations can adopt flexibly and incrementally, enabling them to be transparent about their performance in key sustainability areas.

- **Simple, Practical Proposals for Better Reporting of Corporate Governance** (Report Leadership, 2011) offers suggestions on how companies can adopt a new reporting structure that integrates key governance information with the rest of their business reporting; implement, measure, and communicate sound business principles; and tell the governance story, while also ensuring compliance with relevant codes and legislation. Report Leadership is a multi-stakeholder group consisting of the CIMA, PwC, and Radley Yeldar.

- **COBIT Framework** (ISACA, continually updated) helps IT professionals and enterprise leaders fulfill their IT governance and management responsibilities, particularly in the areas of assurance, security, risk and control, and deliver value to the business.

- Ceres released **21st Century Corporation: The Ceres Roadmap to Sustainability** (Ceres, 2010) as a vision and practical roadmap for integrating sustainability into the DNA of business. It analyzes the drivers, risks and opportunities involved in making the shift to sustainability, and details strategies and results from companies who are taking on these challenges. Ceres is a nonprofit US organization that leads a coalition of investors, environmental organizations, and other public interest groups working with companies to address sustainability challenges such as global climate change and water scarcity.