Inquiry into Government Accounts

CIMA response to the Public Administration and Constitutional Affairs Committee (PACAC) inquiry examining the format and utility of monthly management accounts and departmental accounts

As the Committee have already recognised, poor management information and management accounts contribute to poor decision making within departments. Research carried out by CIMA, Deloitte and the Institute for Government in 2012\(^1\) argued that, while the skills to develop the supply of management information lay primarily within the finance function, improvements in the use of this information would only be unlocked by increasing the demand for management information from senior decision makers.

Key areas addressed

Please find below our response to the key areas addressed by this inquiry, with links to relevant supporting research.

1. How monthly management accounts can be improved as a tool for managing government departments and agencies. In particular, how Ministers, Permanent Secretaries and Departmental Boards are able to use management accounts as a tool to examine the functions of the department they are charged with running.

CIMA identify relevance of information as a key principle of good management accounting – making relevant information available to decision makers when they need it. Our Global Management Accounting Principles\(^2\) provide guidance on identifying past, present and future information, including financial and non-financial data from internal and external sources. This includes social, environmental and economic data.

Good management accounting enables organisations to support a strong and effective performance management cycle, as shown in Appendix 1. In particular, management information needs to address the following areas:

- An assessment of forecast performance
- A review of the effectiveness and efficiency of initiatives and processes
- An evaluation of alternative options
- Post-implementation reviews

Management information should look ahead to inform decisions on future plans and strategy, as well as the refinement of current operations. In 2013 CIMA published the results from of a CIMA-sponsored study\(^3\) by Nottingham Trent University into the extent to which management accounting supports the strategic management process. The findings from the study indicated that typical management information provided to boards:

- contained non-financial information as well as financial,
- utilised a budget or plan with which to compare actual performance,
- fed this information back into a re-forecast or updated estimate of year-end performance, and

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\(^2\) [http://www.cgma.org/Resources/Reports/Pages/GlobalManagementAccountingPrinciples.aspx](http://www.cgma.org/Resources/Reports/Pages/GlobalManagementAccountingPrinciples.aspx)

used variance analysis and exception reporting in relation to the reporting of performance against plan.

2. How both departmental accounts, other accounts and retrospective financial information given to Parliament can be improved to enable both MPs and the public to hold the executive to account. We will be examining the contents and format of the accounts and how far they are transparent to a lay user.

We believe that external reporting should consist of the top slice of information regularly reported internally to senior management. Good reporting, whether internal or external, should provide an integrated and comprehensive view of the organisation's financial and non-financial performance, business model, risks and strategy which together forms the basis for an effective assessment of expected future performance.

Growing demand for more user-friendly accounting information which combines financial and non-financial performance to support better decision making means that governments need to rethink the way that they present their accounts. Adopting new approaches such as Integrated Reporting (as used by BIS), which incorporates non-financial information, KPIs and financial data, can help organisations address these challenges and gain greater understanding of the way in which they create value. Our 2015 report ‘Integrated Reporting in the Public Sector’ gives further detail.

Best practice reporting

Our research into best practice reporting identifies several areas of relevance to this inquiry, including:

Communication provides insight that is influential

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

Information is relevant

• The organisation’s external reporting meets the needs of investors and other stakeholders. It contains clearly communicated information on governance, the business model, strategy and performance and supports effective company stewardship.
• The organisation’s external reports contain trends over a suitable time frame (past, present and future).
• The information is relevant and faithfully represents what it purports to represent. The information is comparable, verifiable, timely and understandable.
• The inter-connectivity of the data being reported is managed so that the objectives of external reporting are achieved.

Impact on value is analysed

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

Stewardship builds trust

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

Examples of best practice external reporting

For recent examples of best practice external reporting in the public, charity and private sectors, we recommend that the committee review the 2015 PWC Building Public Trust award winners. PWC’s award criteria state that:

“Corporate reporting excellence is demonstrated when engaging, relevant, reliable and timely information is provided without unnecessary clutter; when a balance is achieved between the three pillars of reporting - content, quality and integration. Within content we look at the information the company has chosen to report – does it include all the critical, and relevant, elements our research with preparers and users globally tells us they need to understand the quality and sustainability of performance? Quality refers to the depth and materiality of the information – does the company use only qualitative information or is narrative supported with quantitative data, when relevant, benchmarks and targets? Does the reporting cover the past, present and future? Finally, for integration, we consider how well a company demonstrates a clear, consistent and balanced message across its communication channels and the linkage and inter-dependencies between the different elements reported, as well as relating them back to the strategic themes set out as key to company success in the short, medium and longer-term”.

Rebecca McCaffry, Head of Public Sector Research, CIMA
Nick Topazio, Head of Corporate Reporting Research, CIMA

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5 http://www.pwc.co.uk/building-public-trust-awards/winners.html
### Table 1: Application of the Global Management Accounting Principles to the Performance Management System

<table>
<thead>
<tr>
<th>Communication provides insight that is influential</th>
<th>Performance Management System</th>
<th>Information is relevant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are internal and external stakeholders identified?</td>
<td>Strategy</td>
<td>Is the external environment considered, e.g., the competitive scene, economic landscape, regulatory and legal frameworks?</td>
</tr>
<tr>
<td>Are the connections between their interests and influences and the organisation's purpose clear?</td>
<td>Plan</td>
<td>Is the strategic position of the organisation identified and quantified, e.g., market share, availability of resources, and assessment of competencies?</td>
</tr>
<tr>
<td>Is it clear how the strategic objectives represent the organisation's purpose?</td>
<td>Execute</td>
<td>Are key measures of success agreed?</td>
</tr>
<tr>
<td>How do stakeholder groups engage in the strategy conversation?</td>
<td>Review</td>
<td>How does the data plan support performance management?</td>
</tr>
<tr>
<td>How are risks to the achievement of strategic objectives communicated with key stakeholders?</td>
<td></td>
<td>Are key risks and their mitigations identified?</td>
</tr>
<tr>
<td>How is the connectivity of initiatives and processes with strategic objectives communicated?</td>
<td></td>
<td>Does the business plan also have a data plan so that initiatives and processes are reliably assessable upon execution?</td>
</tr>
<tr>
<td>How are people's jobs aligned to initiatives and processes?</td>
<td></td>
<td>Is the management information system defined and approved by the business's users?</td>
</tr>
<tr>
<td>Is there line of sight between what people and teams do and strategic objectives?</td>
<td></td>
<td>How does management information inform decisions on:</td>
</tr>
<tr>
<td>Are results communicated according to stakeholder needs?</td>
<td></td>
<td>- Execution refinement?</td>
</tr>
<tr>
<td>Are results communicated in terms of their impact on strategic objectives?</td>
<td></td>
<td>- Future plans?</td>
</tr>
<tr>
<td>Are results accessible?</td>
<td></td>
<td>- Future strategy?</td>
</tr>
</tbody>
</table>

- Does management information include an assessment of forecast performance?
- Does management information include a review of the effectiveness and efficiency of initiatives and processes?
- Does management information include the evaluation of alternative options?
- Does management information include post-implementation reviews?
### Performance Management System

#### Strategy
- Are strategic options evaluated in the context of the organisation’s strategic position and the key risks?
- Is the customer-value proposition compelling?
- Is the business model competitive and agile?

#### Plan
- Are planned options validated through research, simulation, and testing for their impact on required outcomes?
- Are options prioritised, planned and resourced based on efficiency and impact on required outcomes?
- How do options take account of their associated risks?

#### Execute
- Is implementation of options coordinated and systematic?
- How does the risk management system reduce the likelihood of risk events or their impact on the implementation of options?

#### Review
- Are results analysed against modelled scenarios?
- Do we use this analysis to continuously improve the business model?
- Is analysis used to improve forecast accuracy?

### Stewardship builds trust

#### Are the organisation’s values stated and available to all internal and external stakeholders?

#### Are different stakeholder interests in conflict?

#### Are environmental factors considered during investment appraisal?

#### Is reputational risk considered during strategic decision-making?

#### Are relevant employees and business partnerships made aware of their accountability for plans?

#### Are critical thinking and challenge encouraged as plans are being created?

#### Do those who may be affected by them make plans available on a timely basis for relevant scrutiny?

#### Is the impact on long-term value considered when decisions about short-term activity are made?

#### Is behaviour that falls short of expectations immediately challenged?

#### Does the organisation have a robust internal audit function and is a control environment fostered?

#### Are the relevant stakeholders made aware of any breaches to standards in a timely manner?

#### Do employees proactively seek feedback?

#### Are audit trails maintained and is documentation made available for scrutiny?

#### Are individual performance targets pegged to long-run value generation rather than short-term outcomes?