ON TARGET

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AUDITORS TO THE SLAUGHTER: WHY AUDIT OPINIONS ARE 'UNTRUE' AND 'UNFAIR'

CMA AUSTRALIA Certified Management Accountants

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CEO MESSAGE: AUDITORS TO THE SLAUGHTER: WHY AUDIT OPINIONS ARE ‘UNTRUE’ AND ‘UNFAIR’

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CEO, ICMA Australia

Sometimes you may get what you wished for, but it could turn out to be a can of worms!

In my CEO message a year ago, in August 2018, in an article titled *“Silence of the Auditors”,* I called for a *Royal Commission into Regulation, Independence, Politics, Production and Knowledge Base of Auditors*. I said that an independent inquiry into the role of auditing, especially of financial institutions, would help to highlight the shortcomings of the current practices; i.e. whilst all the Banks were marched like lambs to the slaughter, to sheepishly admit their significant ethical and moral shortcomings in the Banking Royal Commission, those who audited these financial institutions appeared to have escaped scot-free.

This was taken up by the media[1], and there were numerous comments posted online, some agreeing with my recommendations and others questioning the costs of the changes that were being proposed. One even questioned if I had enough professional experience in auditing to make such a drastic recommendation.[2] [*Full Disclosure: prior to my academic and consulting career, I was a chartered accountant with KPMG, and undertook numerous audits including subsidiaries of Unilever and British American Tobacco*].

Now a scandal at *National Australia Bank (NAB),* one of Australia’s Big-4 banks, has triggered unanimous bipartisan support for a parliamentary inquiry that will start later this year into the potential conflicts of the big audit firms. It is not quite the Royal Commission that I (and others) had called for, but such an inquiry is welcome, and long overdue.

The current NAB scandal erupted when a treasure-trove of leaked documents was handed to the Australian newspapers (*The Age* and *The Sydney Morning Herald)* by a whistle-blower that shone an embarrassing light on the private workings of the bank and the cosy relationship it had with its auditor of 13 years, Ernst & Young (EY). The leaked documents included confidential minutes of a meeting where NAB’s chairman Ken Henry privately told EY consultants in the midst of the Royal Commission of the Banking and Financial sector that he was “confident” the bank was still selling products that ripped off its customers and would eventually trigger compensation. The documents make for disturbing reading.[3]

As bad as this all is, the leaks go far deeper than just the problems at NAB, and the enormous challenges it faces in its lax systems. They raise questions about the cosy relationship between audit firms and their clients.

The external audit is supposed to be a ‘trust’ mechanism installed to persuade the public that capitalist corporations and management are not corrupt and that companies and their directors are made accountable. In an uncertain world, corporate audits are expected to produce comfort by reassuring the stakeholders that there has been an external and objective check on the way in which the financial statements have been prepared and presented, and it is an essential part of the checks and balances required. Accountants, as auditors, have cemented their status and privileges on the basis of claims that their expertise enables them to mediate uncertainty and construct independent, objective, true, and fair accounts of corporate affairs. This expertise, it is claimed, enables markets, investors, employees, citizens, and the state to limit and manage risks.[4]

But an “Audit” is also big business. Auditors collect large amounts in audit and non-audit fees. In the past decade the Big-4 auditing firms earned more than $1 billion from the big four banks in auditing and non-auditing fees. EY, for example, earned $286 million from NAB in audit and non-audit fees in the decade 2008-2018. In the same period, ANZ paid their auditor KPMG $203 million, Commonwealth bank paid PwC 330 million and Westpac paid PwC 248.5 million.[5]

The need to hold auditors accountable have been highlighted in many countries, but after a few weeks of media exposure, largely ignored. For example, in 2014, more than one in three audits inspected by the U.S. government's audit watchdog were so deficient that it was stated that the auditors should not have signed off on them.[6] Then about the same time, a more damning report[7] compiled by the ***International Forum of Independent Audit Regulators (IFIAR)***, an organisation representing audit regulators of 49 jurisdictions, including Australia, France, Germany, Italy, Japan Spain, UK and the US, stated categorically that:

"*…there are persistent deficiencies in critical audit areas relating to audit work on the controls within companies designed to prevent abuses, valuation of assets and liabilities, and disclosures of crucial information to the public*." (IFIAR, 2015).

Of particular interest to Australia is that the report was also concerned that auditors of financial institutions pay inadequate attention to the likelihood of losses and the valuation of investments and securities. *In the financial services sector, it seems an independent report is whatever the client's money can buy.[8]*

The IFIAR report was compiled from the audit inspections carried out by national regulators and focuses on audits of major listed companies; which are dominated by the Big-4 accountancy firms – Deloittes, EY, KPMG and PwC – and smaller rivals such as Grant Thornton and BDO. Their combined global revenue is around US$150 billion.

The standard response to any criticism from the auditing industry is to deny the problem or issue new auditing standards, audit reports, codes of ethics and promise tougher action against laggards. But none of these solutions are adequate, as they are all based on a tweaking of accounting standards.

If the tweaking of accounting standards is the solution, then who controls the body responsible for issuing these standards in the first place? Most informed CEOs know that the *International Financial Reporting Standards (IFRS)* are issued by the *IFRS Foundation* and the *International Accounting Standards Board (IASB).* But what most CEOs, and an overwhelming majority of non-accounting regulators **do not know,** is that the big accounting firms have a complete control over the deliberations at the IFRS Foundation and at the IASB, as they stack the Board and thus effectively control the development, production and modification of accounting and auditing standards. As a result, although there are numerous international auditing standards, exposure drafts, codes and related pronouncements – that cover about 5,000 pages – they remain curiously silent on auditor accountability to the public.

Consequently, although the public bears the cost of audits and audit failures, it has no right to see audit files or to make an assessment of the quality of audit work. It is only when a whistle-blower leaks documents, such as in the case of the NAB scandal referred to above, are we privy to what goes on behind the scenes. It is not pretty.

If the Australian Parliamentary inquiry results in an admission of negligence by auditing firms, they escape liability because under most jurisdictions, they **do not** owe a "duty of care" to any individual shareholder, creditor, employee, superannuation (pension) scheme member, or any others affected by their negligence.

In many Western economies, the "too big to close" syndrome continues to prevent effective regulatory retribution. However, in India, under Section 140 of its Companies Act, PwC was banned in early 2018 from auditing listed companies in India for two years after being accused of negligence in its audit work at the now defunct *Satyam Computer Services*. The Securities and Exchange Board of India said that Price Waterhouse chose to rely on "glaring anomalies" and huge differences in Satyam's balance confirmations during its audit work between 2001 and 2008. Although the initial ban did not include ongoing 2017/18 audits for listed companies, the date was extended into 2019, and PwC was allowed to carry on auditing its clients until 31 March, 2019.[9] In a very recent development, Indian regulators are now pushing for a five-year ban on *Deloitte* and *KPMG* over allegations the firms helped conceal bad loans at *Infrastructure Leasing & Financial Services*, a major infrastructure and finance group whose default last year triggered a credit crisis.[10]

What Exactly is the Audit Report Telling Us About the Company?

The audit report of financial statements uses the term 'True and Fair' to express the condition that financial statements are truly prepared and fairly presented *in accordance with the prescribed accounting standards*. As such, an unqualified audit opinion of the financial statements states that the audited financial statements are true and fair view in all material respect; i.e. after the auditors performed their audit, they found no material misstatements in the financial statements and that financial statements are correctly prepared.

They do not attest that the value of the company as stated in the financial statements (called book value) is true and fair; nor do they attest that the financial transaction recorded arose out of only ethical practices; and they do not attest that there has been no fraud.[11] They only attest that the financial reports are prepared and presented in accordance with the prescribed accounting standards. And who develops and issues those accounting standards? The Auditors themselves!

Using a university analogy, it's like the Big-4 are setting the subject syllabus, preparing the exam paper, writing the answers to the exam and finally giving a grade. If there is a complaint, they are the adjudicators of the quality of their own work!

It is time for an independent body, such as Parliament, to be responsible for setting accounting standards.

What is Left Out of the Audit Report?

The Audit Report is flawed because the underlying Generally Accepted Accounting Principles (GAAP) and the resultant *International Financial Reporting Standards (IFRS*) are flawed.

In a paper titled the *Accounting Delusion: Faith and Trust in IFRS Reports*[12], it was stated that the financial statements prepared and audited in today's economic environment can be traced to the industrial era, or the age of the corporation (about 1850), when tangible assets such as machinery were the engines of growth. In this era, financial accountants endorsed or invented rules based on the historical cost doctrine that yielded values which had no counterparts in commercial reality – often book valuations, which may have been relevant at time of acquisition, were sheer fictions or delusions in terms of value, on reporting dates many years later.

'Delusion – A false belief strongly held in spite of invalidating evidence.'

The delusion has been perpetuated in recent times by (1) the vagueness of the rules and principles on which the accounting framework is based (2) the drive for global consistency in accounting standard resulting in the loss of relevance in local applicability; and (3) the difficulties of verifiability resulting in intangible assets such as an organisation's brand equity, intellectual capital and reputation being kept off balance sheet. This has resulted today in knowledge-economy companies reporting book values widely divergent of prorate-market values; i.e. the financial statement valuations of today's organisation are even more fictitious than ever before. These values in financial reports are then audited, with the auditors (who are remunerated by the preparers of the statements, supposedly on behalf of the shareholders of the company), often holding that the prepared statements give a true and fair view of the state of affairs of the company.

Why Audit Reports are Meaningless and Fictitious

Let me take the two major reasons why the application of IFRS results in flawed financial statements, and consequently why they result in meaningless and fictitious audit reports.

The first reason is that IFRS is silent on how *intangible assets* can be shown in the financial statements. An intangible asset is an asset that is not physical in nature. Goodwill, brand recognition and intellectual property, such as patents, trademarks, and copyrights, are all intangible assets. Google's 'search algorithms' and Facebook's 'social media power' are good examples of intangible assets. These do not appear in those two company's financial statements. However, the stock market places significant value on these (non-reported) intangible assets.

Intangible assets exist in opposition to tangible assets, which include land, vehicles, equipment, and inventory. Additionally, financial assets such as stocks and bonds, which derive their value from contractual claims, are considered tangible assets. Google's and Facebook have comparatively very little tangible assets. Organisations such as *Airbnb* (the world's largest hotel company) have almost no tangible assets.

Intangible assets are recognized by IFRS only if there is an arms-length transaction that brings their value into existence at a particular date. For example, if *Google* was to purchase *Airbnb*, it will do so at market value, and suddenly all of Airbnb's intangible assets will be brought to the balance sheet as Goodwill. The market, however, does not wait for such third-part transactions to occur.

IFRS estimates the value of all assets on the company's books, *if sold on a piece-meal basis.* This value is termed *'fair value'.* Whilst there are many difficulties in estimating the fair-value value of tangible assets**[13]**, it is almost impossible to do so with most intangible assets, as many of these cannot be sold on a piece-meal basis. Further, often intangible assts are intertwined with tangible assets, which gives rise to 'capabilities' (what a company can do) which can have quite different values to its assets (what a company owns); which make fair-value value impossible to estimate for just the tangible asset.**[14]** As a result, financial statements that are based on IFRS virtually ignore intangible assets, and thus are unable to value the income generating capability of the assets working as a whole in a going-concern.

This results in the second major problem with IFRS reports. Ignoring intangible assets has resulted in widely divergent shareholder values (equity values) between what the stock market says the company is worth (called market value) and what the audited financial statements say is the company's value (called book value).

For example, the book value of Microsoft on June 29, 2018 was $82.72 billion, and market value (share price times number of shares) was $768.56 billion (more than 9-times of book value of the company). Similarly, Walmart had a book value of $77.87 billion; and its market value was $320.866 billion (4-times book value). The auditors of both companies said that their book valuations were 'true and fair', when they have got it wrong 900% and 400% respectively!

Clearly, it is easier for a camel to go through the eye of a needle than for a book value to reconcile with a market value. Even in tangible asset heavy companies book values and market values differ significantly. The difference is attributed to several factors, including the company's operating model, its industrial sector, the nature of a company's assets and liabilities, and the company's

specific attributes. One simple fix to this problem is to bring into the books the difference between book value and market value as *'Unrealised intangible asset values'* on balance sheet date. One criticism of this simple fix is that it is common to see even large-cap stocks moving 3 to 5 percent up or down during a day's session. Such variations are nothing compared to the 400-900% variation between market values and book values.

It is **not** in the interest of the accounting and auditing profession to perpetuate this delusion of a true and fair view. The financial accounting and auditing professions need to rethink the accounting model to fit the new informational requirements of a knowledge economy. Of specific interest in rethinking such reports would be the recognition and measurement of intangible asset and closing the gap between market values and book values. Only then can a proper audit be conducted.

Strategic Audit

As I have said many times before, it is time that management accountants further distance themselves from the financial accounting and auditing profession and ensure that they are able to be inculcate good strategic governance and strategic audit practices in the organisations that they work in.**[15]**

What is needed is a statutory audit of expected future performance and how it affects current value, and not an audit of past performance and fair-value of individual assets. Such audits are called 'Strategic Audits'. Since businesses are behaving badly in the (legal but often unethical) pursuit of higher profits and shareholder value, the key is for the government to legislate that companies undertake compulsory strategic audits to evaluate business practices beyond simply the financial reporting of the past. Key business practises in marketing, advertising, supply-chain, manufacturing, human resource management and information technology need be strategically audited to ensure that brand reputation and shareholder value is "future-proofed" against such rampant bad behaviour by corporates, their compliant financial auditors.

A strategic audit provides an objective view of the growth and exit options available to shareholders and management when difficult and important decisions need to be made in order to maximise shareholder value. The result of a strategic audit is to ensure that there is a well-defined and agreed path of development, including a series of practical steps which when implemented will substantially enhance the value of a company.

A strategic audit is far different from the common perception of financial audits. It is a continuous evaluation of all the strategic functions of any success-seeking firm. Numerous components (e.g. stakeholder audit, *customer satisfaction audit*, etc.) make up the totality of the strategic audit, although the scope of each component audit will vary depending on the organisation.

Many will be concerned that this will significantly increase audit costs. This will not be the case if the scope of the traditional statutory financial audit is restricted to reporting if transactions are correctly recorded and the financial statements are prepared and fairly presented in accordance with the *Historical Cost Doctrine* and *Generally Accepted Accounting Principles (GAAP)*. The need to estimate and report that the addition of all fair-value of individual assets (less liabilities) will give an accurate reflection of the state of affairs of the company is totally flawed as most intangible assets are left out, and capability values completely ignored. It is anyway not be necessary as this valuation is given efficiently by the market at any point in time.

Such a limitation of scope will significantly reduce the financial audit costs. It may even eliminate the need for an annual statutory audit; as today financial technology (FinTech) and regulation technology (RegTech) combined with basic machine learning can ensure this is done on a real-time basis.**[16]** The savings can be directed towards undertaking strategic audits, specifically tailored to an organisation. Most shareholders will want strategic auditors to perform, at a minimum: (a) stakeholder audits; (b) information security audits; (c) *environmental audits; (d) corporate ethics audits* and (e) leadership audits.

Many firms invest heavily in their brand reputation, to signal that they can be trusted. The greater the likelihood that bad behaviour will be exposed and made public, the more companies will do to guard against such behaviours that significantly diminish brand reputation. Alongside hefty fines, a statutory strategic audit, alongside strong whistle-blower protection, will increase the chance of bad behaviour being exposed and fined, and their executives sent to jail.

No Company (or Auditor) should be "Too Big to Jail".

Professor Janek Ratnatunga, CMA, CGBA

CEO, ICMA Australia

The opinions in this article reflect those of the author and not necessarily that of the organisation or its executive.

[1] Adam Zuchetti (2018), "Should Auditors and Liquidators Face a Royal Commission?", *My Business*, 30 August,

[2] Business Reporter (2018), "Royal Commission into Audit Floated by Accounting Body", *Accountants Daily*, 30 August.

[3] Adele Ferguson (2019), "Time's Up for Henry but Also the Billion-Dollar Audit Club", *The Age*, August 3, page 8.

[4] Janek Ratnatunga (2018), "Silence of the Auditors, On Target, July-August, pp.3-6.

[5] Ferguson (2019), "Time's Up…" page 8.

[6] Emily Chasan (2014), "One in Three Audits Fail, PCAOB Chief Auditor Says", *Wall Street Journal*, Jan 24.

[7] IFIAR (2015), "2014 Annual Report and Accounts, *International Forum of Independent Audit Regulators (IFIAR)*.

[8] Op Cit.

[9] Business Today (2018), "PwC To Complete Audits Taken on This Calendar Year, But Ban to Continue", *Business Today*, January 19.

[10] Stephanie Findlay (2019), "India Pushes For 5-year Auditing Ban for Deloitte and KPMG Arm", *Financial Times*, Delhi, June 12.

[11] The audit firms get into trouble only if they are caught concealing fraud, as in the Indian allegations against Deloitte and KPMG.

[12] Janek Ratnatunga (2016),"The Accounting Delusion: Faith and Trust in IFRS Reports" *Journal of Applied Management Accounting Research*, June 21.

[13] Often companies turn to external valuers, who are paid by the company, to give an 'opinion' as to the value. Such 'opinions', given by the likes of Dunn and Bradstreet on sub-prime mortgages ultimately turned out to be highly flawed, and resulted in the Global financial Crisis of 2008.

[14] Janek Ratnatunga, Norman Gray and Kashi Balachandran (2004) "CEVITA™: The Valuation and Reporting of Strategic Capabilities", *Management Accounting Research*, March, 15(1): 77-105.

[15] Janek Ratnatunga (2018), "Management Accountants are not Accountants!", On Target, April 20.

[16] Janek Ratnatunga (2019), "The Rise and Rise of RegTech: Does it spell the End of the Annual Audit?", *On Target*, March 14.

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SPEAKERS

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RMIT UNIVERSITY

Prof Paul Mather
LA TROBE UNIVERSITY

Prof Carol Tilt
UNIVERSITY OF SOUTH AUSTRALIA

Prof Paul De Lange
UNIVERSITY OF TASMANIA

Prof Nava Subramanium
RMIT UNIVERSITY

Prof Damminda Alahakoon
LA TROBE UNIVERSITY

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2019 THE FRONTIERS OF ACCOUNTING SYMPOSIUM

AGENDA

8:45 am - Welcome Address
Prof John Miller, AO, Patron, ICMA

9:00 am - Overview of big data and data analytics
Prof Damminda Alahakoon, La Trobe University

9:45am - Potential analytics applications in Accounting
Prof Paul Mather, La Trobe University

10:30 am - Networking Opportunity
(Morning Tea/Coffee Break)

11:00 am - GRI sustainability reporting standards, and their applicability to developing countries
Prof Carol Tilt, University of South Australia

11:40 am - Future of the finance profession
Andrew Brushfield / Clinton Marks, Robert Half

12:20 pm - Accounting skills required for employment
Prof Paul De Lange, University of Tasmania

1:00 pm - Lunch Break

2:00 pm Announcement of 2019 Inductees to the ICMA Accounting Hall of Fame® and Management Accounting Hall of Fame®

2:10 pm - Mergers, restructures and Not-for-profit Sector: Potential roles of management accounting controls
Prof Nava Subramanium, RMIT University

2:50 pm Future of accounting work and the changing skills needed to succeed
Prof Brendan O'Connell, RMIT University, President, ICMA

3:15 pm - Networking Opportunity
(Afternoon Tea/Coffee Break)

3:50 pm The Service Revolution - Why finance leaders must push for innovation
Mr Stewart Marshall, Marshall Floyd

4:30 pm - Closing Remarks
Prof Brendan O'Connell, RMIT University, President, ICMA

4:40 pm - End of Symposium

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CORPORATE MYOPIA IN THE 21ST CENTURY!

It's Customers, not shareholders who create long term value for a corporation.

"It is difficult to get a man to understand something, when his salary depends upon his not understanding it!"
Upton Sinclair

A spate of recent corporate scandals indicate that corporations are increasingly sacrificing customer wellbeing and satisfaction in the myopic pursuit of market share and short-term shareholder value creation. This malaise of Corporate Myopia seems to have become an epidemic in the 21st century and it can reasonably be argued that the Global Financial Crisis was a result of this affliction. Short term greed has driven this climate of Corporate Myopia which has seen the drivers of long-term value creation namely people, processes and customers sacrificed at the altar of short-term profitability.

Corporate Fiascos of the 21st Century

Johnson & Johnson

Johnson & Johnson, the reputed pharmaceutical giant, today stands accused of misleading doctors and patients about the dangers of prescription medicines used to treat severe pain – opioids. Oklahoma's bellwether trial over the opioid crisis began Tuesday (May 28, 2019) with officials accusing pharmaceutical giant Johnson & Johnson of acting as a "drug kingpin" that killed over 4,600 Oklahomans through unintentional overdoses and created a public nuisance that cost the state billions of dollars. On 28th of May Mike Hunter, the attorney General of the state of the state of Oklahoma described in graphic detail the horrific plight of the addicts including small babies saying, *"How did this happen? I have a short, one-word answer: greed."*[1]

It is the first of 2,000 cases brought by state, local and tribal governments against pharmaceutical firms in the US. Johnson & Johnson denies wrongdoing and says it marketed products responsibly. But one has to ask how did it come to this? How is it that a company which in 1982 spent over $100 million dollars recalling Tylenol to protect its customers, today stands accused of callously disregarding its customers in the pursuit of 'greed'? The company won universal accolades for its action in 1982 but nearly four decades later today stands accused of such horrific neglect. We should wait for the verdict of the courts to decide their culpability but we ask the question, is this another result of the malaise of corporate myopia afflicting the business world in the 21st century?

Boeing

On 10th March 2019, an Ethiopian Airlines aircraft 737 Max crashed killing all 157 people on board. Coming close on the heels of the Lion Air crash of the same aircraft 777 Max in October 2018, this brought the total death toll to 346. Within 3 days all countries except the USA and Canada had grounded the aircraft and a few days later (17th March, 2019) the USA and Canada also followed suit.

"The events that led to these two fatal crashes were set in motion nearly a decade ago, and they started not with Boeing, but with the company's European archrival, Airbus……. On Dec 1st, 2010, Airbus stunned the aviation community. In secret, it had developed a more efficient version of the A320 called the A320neo (which stands for "new engine option"). It would burn about 6 percent less fuel than the 737NG…… In the face of the existential threat from the A320neo, Boeing's execs made up their minds in a matter of weeks. The company would launch a fourth-generation 737, and it would do it in record time……. To beat Airbus, it would have to break the one unbreakable law of project management: that a development cycle can't be fast, cheap, *and* good. If it failed, Airbus could corner a $35 billion market for single-aisle airplanes for a decade or longer. So, Boeing could not afford to fail."[2]

Dr Chris D'Souza

CFO & COO (International), ICMA Australia

Boeing was established in 1916. It took 102 years for it to become a US$100 billion company (US$ 101.13) in 2018 which was 8% higher than 2017's US$94.01 billion. Having taken over a century to become a $100 billion company at the beginning of this year it aimed to double its revenue to $200 billion in the next 7 years. In other words, in the next 7 years it aimed to achieve growth equal to what it previously took a century to achieve. The question we have to ask is that in its hunger for growth did it risk too much? By focusing on beating Airbus in the short to medium term has it not done irreparable damage to its reputation in the long run?

The Australian Banking, Superannuation and Financial Services Sector

Evidence of how wide spread is greed and pursuit of short-term profits in the corporate world was found in abundance by the 'Royal Commission into misconduct in the Banking Superannuation and Financial Services Industry', which submitted its final report in February 2019. It found that "Banks, and all financial services entities recognised that they sold services and products. Selling became their focus of attention. Too often it became the sole focus of attention. Products and services multiplied. Banks searched for their 'share of the customer's wallet'. From the executive suite to the front line, staff were measured and rewarded by reference

to profit and sales……. Why did it happen? Too often, the answer seems to be greed – the pursuit of short-term profit at the expense of basic standards of honesty. How else is charging continuing advice fees to the dead to be explained?" [3]

The report exposes the rort that deeply afflicted the very large Financial services sector in Australia in general, and the big four banks in particular. And as quoted above it unequivocally blames *'greed and the pursuit of short term profit'* for the wide spread misconduct – in other words it blames the toxic culture of 'Corporate Myopia' in which reputed institutions put short term profitability ahead of the main value driver for its business namely the 'Customer'.

European Motor Industry Emissions Scandal

Volkswagen convicted of fraud but BMW and Daimler (Mercedes Benz) now charged with collusion.

European corporations are not immune from Corporate Myopia. The case of Volkswagen and its criminal culpability in the emissions or the 'Diselgate' scandal is well documented and confirmed. "A federal grand jury in Detroit has indicted four former Audi managers for their alleged role in the German automaker's scheme to cheat US emissions testing on diesel-powered cars, according to a new court document published Thursday. Audi's malfeasance was part of a larger effort from parent company Volkswagen Group to sell millions of cars with engines that were dirtier than regulations allowed, a scandal that was uncovered in 2015 and has since been dubbed "Dieselgate." …… The total number of people who have been charged in the US over alleged involvement in 'Dieselgate' is now thirteen. Volkswagen Group pled guilty in US court in 2017, and has agreed to pay back more than $20 billion to states, dealers, regulators, and individual owners. Multiple former executives are in prison, and Volkswagen's CEO at the time — Martin Winterkorn — swiftly resigned when the news broke in 2015.[4]

Providing further evidence of how Corporate Myopia has spread deep into the Europe on 5th April, 2019, the European Commission found that three German Auto Giants BMW, Daimler (the parent company of Mercedes Benz) and Volkswagen colluded to restrict the technology to clean emissions from passenger cars.

EU Commissioner Margrethe Vestager, who is in charge of competition policy, said EU antitrust authorities were concerned that VW, BMW and Daimler deliberately restricted their customer's access to the best technology. "Companies can cooperate in many ways to improve the quality of their products. However, EU competition rules do not allow them to collude on exactly the opposite: not to improve their products, not to compete on quality," Vestager said in a statement.[5]

No prizes for guessing why these reputed corporations acted not just unethically but also immorally and illegally – its short-term profitability, stupid…. Corporate Myopia in the 21st Century.

United Airlines

This incident is a couple of years old but is a powerful example of how Corporates are so focused on their profitability that they end up mistreating the customer forgetting that it is the Customer that enables them to make profit.

On April 9, 2017 Dr. David Dao a Vietnamese American Doctor was dragged off a United Airlines flight at Chicago International Airport. The flight was fully booked and all passengers had boarded when an airline supervisor walked onto the plane and brusquely announced: "We have United employees that need to fly to Louisville tonight. … This flight's not leaving until four people get off." Passengers were initially offered $400 to get off the flight and this offer was increased to $800 but no one was ready to leave the flight. United Airlines then 'randomly' selected four passengers to leave the flight. It was later found that the so-called random selection was out of the lowest fee paying non frequent flyers. Three of the four passengers grudgingly left the aircraft but Dr David Dao refused to leave because he had patients to see on the next day. He was dragged of the flight and incurred significant injuries but the videos of him being dragged out went viral and created a furore. The CEO of United Airlines initially backed his employees saying that they were only following procedures (saying that the passenger was belligerent). It was only next day when the public outrage became furious and ferocious that he offered an unqualified apology. United Airlines and Dr Dao reached a confidential settlement.

In their quest to ensure profitability all Airlines overbook – that by itself is not a major issue because the overbooking results in a very miniscule number of circumstances where booked passengers are denied a seat. The issue is how an airline ensures that the off-loaded customer is treated with dignity and adequately compensated. United Airlines in this case learnt from its mistake and subsequent to the incident raised the amount that can be compensated up to $10,000.

Conclusions you can draw from these Fiascos

Too many corporations today suffer from Corporate Myopia – looking for short term profits. There is too much focus on shareholder value and much of it is short term because these days no one seems to have the vision for the long run. Specially not shareholders – "The average time someone used to hold a share of stock back in the '1960s was eight years. Now, the average time is four months," – U.S. Sen. Mark Warner. Fact checking this assertion has proved that this claim is substantially correct.[6]Consequently this short-term myopia malaise seems to have infected the management of corporations as well.

A study published by Harvard University shows that the median tenure of CEO's has been falling – it has fallen by 1 year from 2013 (7 years) to 2017 (6 years).[7]

Should companies be focused on Shareholder Value?

Jack Welch, the former General Electric chief who as per the Financial Times is regarded as the father of the "shareholder value" movement that has dominated the corporate world for more than 20 years seems to have taken a U turn on the subject. He told the Financial Times in a 2009 interview that the emphasis that executives and investors had put on shareholder value, which began gaining popularity after a speech he made in 1981, was misplaced. "It is a dumb idea," he said. "The idea that shareholder value is a strategy is insane. It is the product of your combined efforts – from the management to the employees". "On the face of it, shareholder value is the dumbest idea in the world," he said. "Shareholder value is a result, not a strategy . . . your main constituencies are your employees, your customers and your products."

The truth might have dawned on Jack Welch a little late, but Peter Drucker had already in the 1970's published this definition of *business* in his book, Management: Tasks, Responsibilities, Practices. … "It is the customer who determines what a *business* is…The customer is the foundation of

a *business* and keeps it in existence. He alone gives employment." There is only one valid definition of business purpose Dr Drucker emphasised – *To create and keep a customer*.

Drucker was in fact emphasising a truth which has been valid for business organisations ever since business began. The truth being that the achievement of shareholder or business value should not be the objective or focus of business rather it should be one of the methods of measuring the success of a corporation in achieving its objectives which should all be centred on the customer.

And how is customer satisfaction achieved – primarily by getting the processes that drive it right! And how does a corporation get the all-important processes right – by making sure it has the right people in the right places to drive the processes. So, it is not profit or market share, stupid – rather focus on your customer and get the right processes and people in place to satisfy the customer – the profits and market share will surely follow. An inspiring urban legend of customer focus leading to improve processes and products is that of the late Sumant Moolgaokar who was CEO of the Tata Engineering and Locomotive Company (TELCO), who would forgo his plush five star office executive lunch to have lunch at small roadside restaurants (dhaba) frequented by truck drivers so that he could discuss the working of TATA trucks with the end users of the vehicle. He used the meticulous notes he took from these 'customer and product focused' meetings to improve on the vehicles that TATA produced. A great example of Customer Focus leading to process and product success. This customer focus is probably what has helped TATA to achieve considerable success in the automobile industry. It can be noted that in 2008 TATA acquired the iconic British company Jaguar from Ford and turned its fortunes around.

What are the Critical Success Factors enabling value creation for corporations in the long term? Maybe the CEO's of the 21st century can learn something from their counterparts in the 15th Century. In 'Relevance Lost – The Rise and Fall of Management Accounting', Johnson and Kaplan take us back to trade on the silk Route in the 15th century when traders used camel trains (caravans) to transport goods between Italy and China. What would be the critical success factors that CEO's of businesses that operated along the silk route focus on? When the camel Caravan was traversing the Persian desert en route to India would they be focused on computing the expeditions profit for the third quarter of 1487? Johnson and Kaplan argue that there were "many measures of the caravan's performance during the third quarter of 1487 that the investors would have been interested in knowing. For example, what distance did the Caravan cover and in what direction? How many provisions were left? What was the condition of the inventory being transported? Were the workers content or rebellious?

There were many potentially useful indicators of the caravan managers performance during the third quarter, 1947. BUT QUARTERLY PROFIT WAS NOT ONE OF THEM."[8]

"Because even 500 years ago investors likely understood that allocating profits of expeditions to periods as short as three months was not a meaningful exercise."

Johnson and Kaplan are critical of the short-term focus (quarterly earnings) of today's organization comparing it to the equivalent of the investors in the 15th century focusing on profit allocation in the middle of the Caravan's progress. Focus instead on getting the critical success factors right – profits will follow.

So, this brings us back to the original question and the topic of this article – Are *myopic corporations pursuing short term profits – ignoring Customer, Employees and Processes which are the drivers of long-term profitability?*

Prima facie it has to be said that there is nothing wrong in pursuing profits or having an objective as increasing shareholder value both in the short and long term. However, this cannot be to the detriment of the drivers of that value namely processes, customers and employees. Increasing Shareholder Value should only be part of a hierarchy of objectives which include increasing value to the customer by improving its processes and employing/retaining the best talent. Ignoring these drivers of value is Corporate Myopia; and unfortunately, evidence suggests that it is a growing modern-day malaise of the 21st Century.

[1] https://www.courthousenews.com/oklahoma-takes-on-drugmaker-in-first-major-opioid-trial/

[2] https://www.theverge.com/2019/5/2/18518176/boeing-737-max-crash-problems-human-error-mcas-faa

[3] https://financialservices.royalcommission.gov.au/Pages/reports.aspx

[4] https://www.theverge.com/2019/1/17/18187558/audi-charges-dieselgate-scandal-indictment-cheating

[5] https://www.dw.com/en/european-commission-finds-german-automakers-illegally-colluded-on-emissions-technology/a-48218578

[6] https://www.politifact.com/virginia/statements/2016/jul/06/mark-warner/mark-warner-says-average-holding-time-stocks-has-f/

[7] https://corpgov.law.harvard.edu/2018/02/12/ceo-tenure-rates/

[8] Kaplan, Robert S., and H. Thomas Johnson. *Relevance Lost: The Rise and Fall of Management Accounting*. Boston: Harvard Business School Press, 1987.

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Professor Brendan O'Connell is Professor of Accounting at RMIT and also President of the Institute of Certified Management Accountants. He has worked as an analyst and bond dealer with major investment banks and has been employed in leading universities in the US, Australia and Asia including Monash University and the University of Richmond in Virginia.

Professor Janek Ratnatunga is CEO of Institute of Certified Management Accountants. He has held appointments at the University of Melbourne, Monash University and the Australian National University in Australia; and the Universities of Washington, Richmond and Rhode Island in the USA. Prior to his academic career he worked with KPMG.

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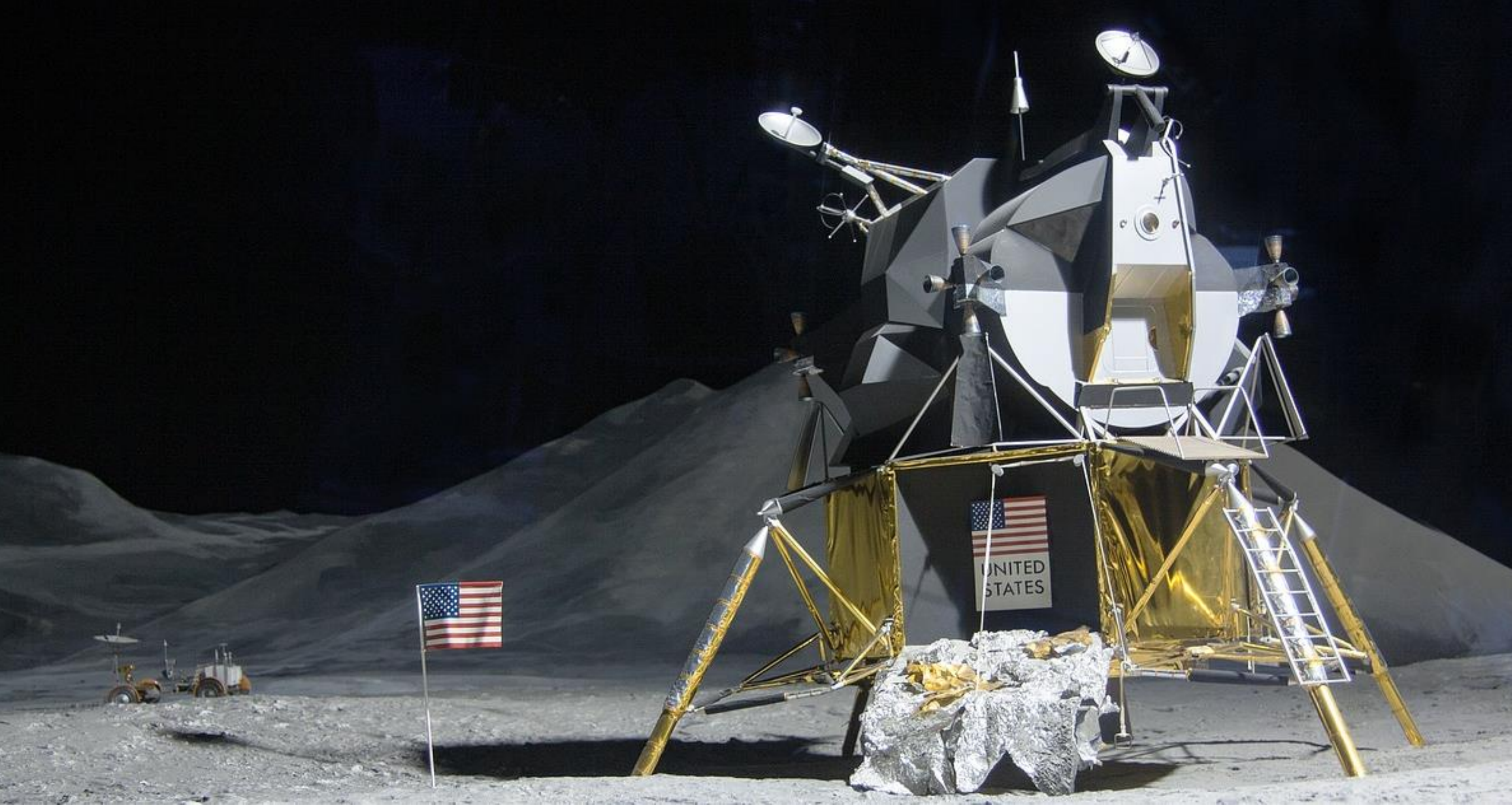

A NEW ACCOUNTING FOR APOLLO: HOW MUCH DID IT REALLY COST?

Nestled within one of the half-dozen boxes of Apollo budget documents at NASA's historical reference collection in Washington, DC, is a piece of paper outlining a "loose agenda"—sadly undated[1]—for a meeting intriguingly titled **Apollo Cost Consensus**. Among the goals stated by the agenda are for "the cost estimating community to reach consensus on Apollo costs."

Though the convener is anonymous, you can feel their resignation in the written notes summarizing the meeting: "[it] had the predictable results… no one was fully prepared to discuss the problem… data extremely sketchy… discrepancies typically 15% – 20%."

Such is the lament of the Apollo cost curious. Somehow, the United States' greatest triumph in human exploration—a triumph of engineering, cooperation, and organization—evades an answer to a seemingly simple question: how much did it cost?

In early 1973 NASA provided **written testimony**[2] to Congress reporting the total cost of Apollo as $25.4 billion. The data provided summarizes, to one significant digit, major program lines, but does not express spending by year or by individual program. There are more **detailed cost data**[3] that claim Apollo only cost $19.4 billion—a significant discrepancy lacking obvious explanation.

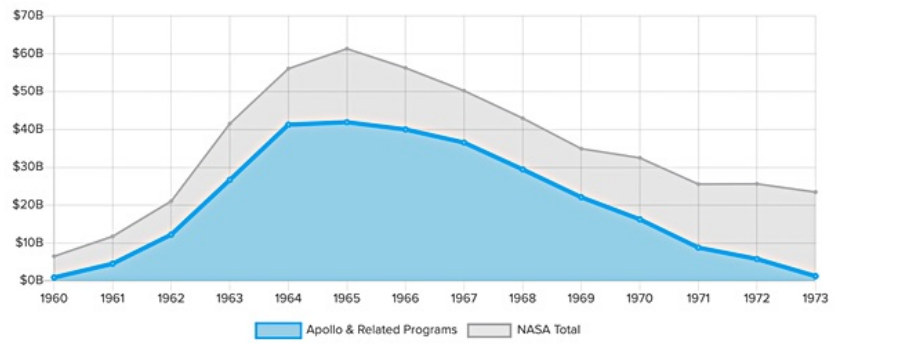

Figure 1. Project Apollo and related programs obligations per year, measured against total NASA obligations for fiscal years 1960—1973. All amounts adjusted for inflation to 2019 dollars using NASA's New Start Index (NNSI).

To summarize: the entire lunar effort (with robotic missions and Gemini included) would cost $288 billion in today's dollars.

How much was spent on Apollo, and when, is relevant as NASA has once again been directed to return humans to the Moon. With its goals to land humans in five years and then to establish a permanent human presence at the Moon, Project Artemis exceeds both the pace and ambitions of Apollo. To properly evaluate the seriousness of Artemis, then, it makes sense to compare its spending proposals to the one data point we have for a successful human lunar mission, Apollo. How much money did it take to do it the first time? How was it spent? And, perhaps most importantly, when did the money show up?

The participants of the meeting seemed to share this motivation for understanding the

FY	Apollo Total	Spacecraft	Saturn Launch Vehicles	Dev, Support, & Operations	Construction of Facilities	Facilities Operations and Overhead	Tracking and Data R&D
1960	$57,420	$0	$57,320	$100	$0	$0	$0
1961	$299,228	$0	$174,531	$297	$53,400	$71,000	$0
1962	$880,971	$82,522	$385,504	$27,545	$252,400	$133,000	$0
1963	$2,001,035	$363,962	$757,976	$136,497	$560,600	$182,000	$0
1964	$3,172,838	$876,575	$1,263,276	$139,687	$637,700	$219,000	$36,600
1965	$3,197,219	$1,009,898	$1,434,179	$170,542	$215,100	$268,000	$99,500
1966	$3,334,185	$1,201,466	$1,542,857	$196,662	$29,200	$297,000	$67,000
1967	$3,375,300	$1,275,001	$1,373,580	$274,019	$44,700	$316,000	$92,000
1968	$3,005,430	$1,034,700	$975,565	$545,765	$21,400	$315,000	$113,000
1969	$2,454,000	$913,127	$577,986	$533,887	$0	$302,000	$127,000
1970	$1,933,737	$778,978	$486,691	$422,068	$0	$124,000	$122,000
1971	$1,112,169	$398,147	$189,059	$314,963	$0	$104,000	$106,000
1972	$775,328	$120,006	$157,996	$310,326	$0	$90,000	$97,000
1973	$180,000	$56,700	$26,300	$0	$0	$41,000	$56,000
Totals	$25,778,860	$8,111,082	$9,402,820	$3,072,358	$1,814,500	$2,462,000	$916,100

Table 1. Direct and indirect annual costs for Apollo as reconstructed by the author. Source data.

cost and phasing of Apollo, particularly as it applied to effective cost estimation and financial planning. So, despite the disappointing outcome of the meeting itself, it appears that the participants agreed to revisit original cost data in congressional budget narratives from the 1960s and to search the record collections at Johnson Space Center and Marshall Space Flight Center. Whether this actually happened, there is no indication.

Taking the lead from the anonymous notetaker in NASA's financial office, I reconstructed Apollo's entire reported cost history using publicly reported (but not readily available, until now) congressional budget narratives from fiscal year (FY) 1961 to 1974. I also visited NASA's historical reference collection and discovered additional Apollo cost documentation prepared by NASA's financial office, including a rare breakdown of annual construction and operations numbers. We can now attempt to answer "how much and when?" when talking about Apollo, and perhaps resolve some of the discrepancies noted above.

According to my reconstruction (Table 1), direct R&D obligations for Apollo were $20.6 billion between fiscal years 1960 and 1973. Adding "indirect" costs, such as the construction of facilities, operations, and deployment of the tracking and data network, results in a $25.8 billion total cost for Project Apollo. This agrees with the congressionally reported number within 1.6 percent and represents a significant improvement over the cost data presented elsewhere.

The small discrepancy is due to uncertainties in the reported costs of Saturn launch vehicles in the early 1960s. It's possible NASA excluded initial Saturn development costs when submitting its report to Congress, as they precluded the start of Apollo. I elected to count it, however, as well as the DoD portion of the Saturn I obligations in FY 1960. I believe this decision helps to better answer the question of "what did the lunar landing cost?" as opposed to "what did NASA pay?" Overall, though, this data set agrees well with the values reported to Congress.

I include further program breakouts in the source data (Excel spreadsheet), which also preserves each fiscal year's unique accounting profile as presented in their budget submissions. Since no accounting effort is wholly objective, I attempted to note every subjective decision I made in what to count, when, and where via per-cell comments in the Excel spreadsheet linked above.

Now that we have annual spending data for Apollo, we are in a better position to provide accurate adjustments for inflation, as inflation rates changed substantially year-to-year throughout the 1960s. I use two methods to adjust for inflation, both of which answer a slightly different question:

1. NASA's New Start Index (NNSI)[4] is explicitly designed to normalize the costs of aerospace projects over time by strongly weighting the changing costs of labor and aerospace materials. This adjustment answers the question, "How much would NASA be spending on Apollo today?"

	original $	Adjusted 2019 $	Relative GDP $
Spacecraft	8.1 billion	81.3 billion	194.8 billion
Launch Vehicles	9.4 billion	99.0 billion	243.4 billion
Development & Operations	3.1 billion	28.7 billion	66.9 billion
Direct costs	20.6 billion	209.0 billion	505.2 billion
Construction of Facilities, Salaries, & Overhead	5.2 billion	54.8 billion	136.2 billion
Total Apollo	25.8 billion	263.8 billion	641.4 billion
Robotic Lunar Program	907.0 million	10.3 billion	26.1 billion
Project Gemini	1.3 billion	14.1 billion	34.8 billion
Total Lunar Effort	28.0 billion	288.1 billion	702.3 billion

Table 2. Costs of the Apollo lunar effort, adjusted for inflation to 2019 dollars using the NNSI and relative GDP share. Detailed numbers available in the source data. Source data.

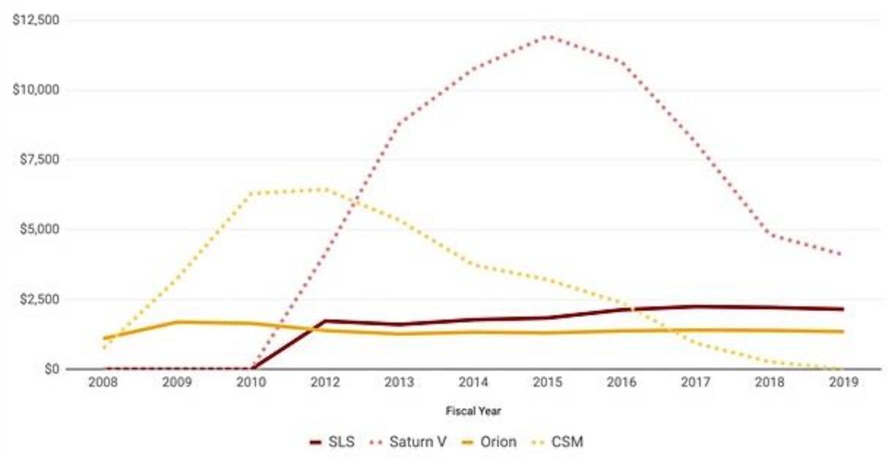

Figure 3. Comparing current major human spaceflight programs to similar programs during Apollo. The differences between funding are stark: current programs are subject to flat budgets while Apollo programs enjoyed significant upfront R&D investment. Apollo programs are normalized to 2019 dollars via NNSI and to the same start years as their modern counterparts.

2. Spending as a relative share of the nation's Gross Domestic Product (GDP). This adjustment answers, "If the US were to allocate resources to a space project to the same extent as it did for the lunar effort, how much would NASA be spending today?"[5]

To summarize: the entire lunar effort (with robotic missions and Gemini included) would cost $288 billion in today's dollars. If the US prioritized the project financially the same way it did in the 1960s, the nation would have to spend $702 billion to occupy the equivalent share of GDP.

What costs should we consider as part of Apollo?

Table 2 raises an important question: what do we include in the Apollo program?

Throughout the 1960s and 1970s, NASA's budget was divided into three primary accounts: Research & Development (R&D), Construction of Facilities (CoF), and Administrative Operations (AO)—later renamed Research & Program Management (R&PM). Nearly all of the detailed cost data we have for Apollo comes from the R&D accounts, which paid for obvious things like the development and production of Apollo spacecraft, the Saturn V launch vehicle, mission operations, and project integration. I consider these to be "direct costs." These data are why we frequently see the cost of Apollo reported as $20 billion.

"Indirect costs" should be included, however, as they were used to build Apollo's enabling infrastructure at what are now known as Johnson Space Center, Kennedy Space Center, Michoud Assembly Facility, and Stennis Space Center. Without these facilities and their attendant staff, Apollo obviously would not have happened. These data are harder to suss out from congressional budget justifications, and I instead rely on two internal reports prepared for Congress from NASA's financial office which breaks down facilities and overhead costs from FY 1961–1973[6,7].

The sum of the direct and indirect costs results in the $25.8 billion number that closely matches the total cost supplied to Congress in 1973. However, I argue that this undercounts the total US investment in Apollo, as there were other efforts pursued in service of the lunar goal throughout the 1960s. In particular, Gemini refined operations and rendezvous in low Earth orbit in service of Apollo. The robotic lunar programs in the 1960s also mapped the lunar surface and provided crucial ground truth in advance of astronauts. Just because they weren't included in the "Apollo account" in NASA's ledgers doesn't mean the money wasn't spent. These are the two largest programs (together they were roughly $24 billion in today's dollars) relevant to the lunar effort but rarely included in the total cost. I elect to include them as "related programs" and incorporate them into the total cost when speaking of the "lunar effort."

Context for current human spaceflight programs and Artemis

NASA's human exploration development efforts have remained quite stable over the past decade. Both the Orion crew capsule and the Space Launch System programs soldiered on despite the destination changes of asteroids, Mars, and the Moon.

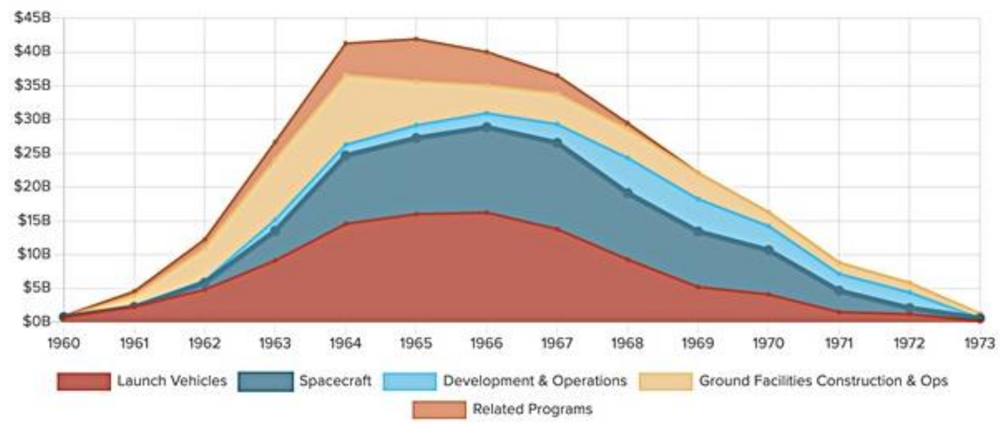

Figure 2. Cost of Project Apollo and related programs, by major sub-program, for fiscal years 1960 to 1973. All amounts adjusted for inflation to 2019 dollars using NASA's New Start Index (NNSI). Source data.

With this new Apollo costing data, we can now better evaluate levels of spending between comparable programs in Apollo and today. Below I compare spending between the Saturn V and SLS and between the Command module and the Orion crew capsule. Why haven't SLS or Orion flown yet after years of development? Well, the results speak for themselves:

Adjusted for inflation and normalizing to the same development start dates as their modern counterparts, the Saturn V project cost NASA $60 billion by this point in its development, compared to $17.5 billion for the Space Launch System. Spending on Orion (assuming a generous start date of FY 2008) totals to $16.6 billion compared to $39 billion spent on the Command & Service Module by this point (though the CSM program had effectively ended by this point!) Compared to Apollo, the costs of NASA's current human exploration projects are relatively paltry. That said, NASA's overall budgets are themselves relatively paltry compared to the Apollo-era.

Moving on to Project Artemis and its 2024 lunar landing goal, the most salient comparison is the lunar lander. NASA must develop, test, and fly a new lunar lander within the next five years. While the White House has not yet submitted a full budget run-out for this period, the supplemental budget request released in May of 2019 did propose $1 billion to begin lander development work in FY 2020.

As a comparison, during its first full fiscal year of development, the Apollo-era Lunar Module received $1.6 billion in adjusted dollars. Spending peaked three years later at $5.4 billion. The entire project cost (*excluding* the guidance and navigation computers) for the Lunar Module was approximately $23.4 billion in today's dollars. If the White House is serious about landing on the Moon in 2024, we should expect significant growth in this project very soon.

While there are "new ways of doing business" in space today compared to the Apollo era, this new look at old data should remind us that crewed lunar exploration is costly and complex. The benefits of commercial entities in deep space exploration—though promising—are uncertain. I see few reasons to assume that commercial partners can provide greater capability for fractional amounts of the cost of past successful programs. We would do well to heed the words of Kennedy himself when considering Project Artemis. A lunar effort "is a heavy burden," he said, "and there is no sense in agreeing or desiring that the United States take an affirmative position in outer space, unless we are prepared to do the work and bear the burdens to make it successful. If we are not, we should decide today and this year."

Conclusions

Looking at old data in new ways provides helpful context for evaluating the seriousness of national space commitments. Comprehensive Apollo budgetary data allows us to compare not just the total program costs, but to see when the money showed up, how quickly budgets grew, and how it was divided up for each major program. Given the unyielding demands of orbital mechanics and astronaut safety, we can gain a better understanding of current human spaceflight commitments by making direct comparisons, program by program, to old data.

To replicate the successes of past lunar endeavors, we must understand that Apollo was not just a triumph of engineering, organization, and daring, but also as a triumph of political consensus that provided the money required to achieve the goal of landing a man on the Moon and returning him safely to the Earth.

An Addendum: why you shouldn't use the "Apollo Program Budget Appropriations" data source

NASA History Office website hosts **a detailed cost breakdown** for Apollo, by year, compiled from *The Apollo Spacecraft: A Chronology, volumes I through IV*, published in 1978. Don't use this. It contains numerous errors, significant omissions, and presents an inaccurate picture of Apollo funding.

First, the data presented as "Apollo Program Budget Appropriations" are not actually appropriations. Congress appropriates funds, NASA then programs those funds and eventually pays them out as expenditures. Planned spending is often different than actual spending, and expenditures generally lag behind contracted obligations, particularly in a project as challenging and dynamic as Apollo. NASA also benefited from "no-year" appropriations during the 1960s, allowing the agency to carry over unobligated funds year to year. The data listed in this table includes a mix of requested funds (FY 1962, FY 1973) and obligations (pretty much everything else 1960s), but not appropriations.

Second, there are significant omissions in funding for programs before 1964. The most glaring omissions are for the Saturn launch vehicles—note, for example, that this source lists $0 in funds for the Saturn I rocket before FY 1964, even though it first launched in 1961.

Third, it lists significant expenditures for orbital reentry tests, biomedical tests, and so forth in FY 1962. These numbers come from the FY 1962 budget request, and, as far as I can tell, were funds never actually obligated or spent. I believe these testing needs were eventually wrapped up into Project Gemini, which began after the FY 1962 budget estimates were prepared in early 1961. These are very likely phantom expenditures.

Fourth, the annual values for "NASA Total" only include the space agency's R&D account. It excludes the Construction of Facilities and Administrative Overhead accounts and thus understates NASA's annual budget.

Fifth, it incorrectly sums NASA's total from 1960 to 1973 as $56 billion. This is wrong. It should be $41 billion. But what's $15 billion between friends?

Sixth (and finally), it makes no attempt to normalize annual accounting changes. This is why there are columns with a single value for items like "Saturn I-C," "Spacecraft," and "Flight Modules (the CSM and LM). As these are presented without context, it is impossible to compare one year to another.

There are more reasons, but is it worth further belaboring a point?

Resources

“How much did the Apollo program cost?”
This page summarizes the costs of Apollo and includes beautiful charts highlighting the annual costs of major Apollo systems such as the Command and Service Module, the Lunar Module, and the Saturn V.

Project Apollo Cost Data Set (Excel spreadsheet)
Comprehensive Project Apollo annual cost data, non-inflation adjusted dollar amounts, program-by-program cost breakdowns, construction costs, and relative GDP adjustments are available to download as an Excel spreadsheet or to view as a Google spreadsheet.

NASA Budget Estimates & Documentation
A public Google Drive folder which includes NASA budget submissions to Congress, including between 1960 and 1973, as well as the additional Apollo budget documents mentioned here.

Endnotes

1. Author unknown. “Apollo Cost Consensus Meeting Loose Agenda” June 22-23. No year provided. Budget Operations Division. Record Number 18194. Box 1. NASA HQ Historical Reference Collection. Washington, D.C. Given that the agenda is printed in a Microsoft Word font, it can’t be that old. It’s not unreasonable to speculate that this meeting was convened in advance of a NASA cost estimating symposium within the last decade.
2. House Subcommittee on Manned Space Flight, 1974 NASA Authorization, Hearings on H.R. 4567, 93/2, Part 2, Page 1271. March/April 1973.
3. Ertel, Ivan D. and Roland W. Newkirk. *The Apollo Spacecraft – A Chronology: Volume 4*. NASA SP-4009, 1978.
4. This is a far better method than the Consumer Price Index. NASA does many things, but primarily purchase consumer products is does not.
5. Alexander MacDonald demonstrated the utility of this method his excellent book, *The Long Space Age: The Economic Origins of Space Exploration from Colonial America to the Cold War*, Yale University Press. 2017.
6. Author unknown. “Manned Lunar Landing Program. Code B official assessment.” Undated but likely 1969/1970. Budget Operations Division. Record Number 18194. Box 1. NASA HQ Historical Reference Collection. Washington, D.C.
7. Author unknown. “Lunar Landing and Lunar Exploration Program Cost Summary.” Dated 2/27/1973. Budget Operations Division. Record Number 18194. Box 1. NASA HQ Historical Reference Collection. Washington, D.C.

About the Author

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Source: *The Space Review*

CFO SENTIMENT: OPTIMISM CONTINUES TO WANE AS GLOBAL UNCERTAINTY HITS HOME

Optimism amongst Australia's CFOs has fallen again, amid concerns about both global and local economic conditions.

According to the latest edition of **Deloitte's biannual CFO Sentiment survey**, and covering the first half of 2019:

- Net optimism amongst CFOs is down to 60%, from 73% 12 months ago
- Net pessimism about the Australian economy has grown since the end of 2018 – from 8% to 22%
- 44% report rising trade tensions between the US and China have already negatively affected their businesses – and 68% expect negative impacts in the next one to four years
- 57% think now is not a good time to take on more balance sheet risk
- 76% believe lover interest rates will boost Australia's economic performance, and 35% said lower rates may prompt new investment in their business
- Nearly one-third expect to see an increase in their business's M&A activity over the next 12 months.

Deloitte CFO Program leader, Steve Gustafson, said: "CFOs are still more optimistic than not, and sentiment is still in positive territory, but it also now fallen across our last two surveys.

"What had been a glass half full on outlook and risk appetite, had become more of a glass half empty, and this new survey, undertaken in June and July, suggests the glass has emptied a little more.

"To an extent, competing forces are at play. Economic conditions, both at home and abroad, are the key contributors to waning optimism, and China is the biggest source of global concern. But the stimulus provided by the recent rates cuts is seen as a major positive, and our survey ran prior to the legislating of the government's income tax cut package."

Optimism waning in the face of uncertainty

"With net optimism continuing to fall, a higher share of CFOs also feel neutral about the future prospects for their businesses, and among those remaining positive, far fewer are highly optimistic – just 8%, down from 21% this time last year," Gustafson said.

"Uncertainty has risen consistently since the end of 2017, when just 50% of survey respondents rated the general level of external financial and economic uncertainty above normal. This has grown to 71%, and given greater uncertainty fed by the likes of trade wars and Brexit, as well as weaker optimism, it's not surprising that 57% of CFOs believe now is not a good time to be taking on risk."

Abroad? It's about China

"CFO fears have risen about the possibility of global growth stagnating for an extended period of time, and China is still the biggest concern by far," Gustafson said.

"Net optimism on this front has turned into net pessimism, as more CFOs believe the possibility of a China hard landing scenario is worth preparing for.

"Nearly half report that rising trade tensions between the US and China have already negatively affected their businesses, and they fear the worst is yet to come over the next four years."

At home? It's about economic uncertainty (but rate cuts welcomed)

"Domestic financial conditions are creating favourable operating conditions for many businesses," Gustafson said. "Interest rates are low, our dollar is fairly steady, some commodity prices are working well for exporters, and the share market has been enjoying the cuts to interest rates.

"But there is significant concern about our overall economic performance. Net pessimism about the Australian economy has grown almost three-fold since the end of 2018, and CFOs are almost as concerned about our economy as they are about China's.

"On the upside, one area where CFOs are happy is the RBA's recent interest rate cuts and their impact on the broader economy, and just over 75% are expecting to see at least some stimulatory impact.

"The combination of interest rate cuts and rising uncertainty has also made external sources of funding far more attractive than spending profits. Over the last six months, the net attractiveness to CFOs of bank borrowing, corporate debt and equity issuance has risen, while that of internal funding has declined."

Focus on M&A

Nearly one-third of CFOs expect to see an increase in their business's M&A activity over the next 12 months, with the most critical driver being to expand or diversify products and services in response to rapidly shifting consumer demands.

"CFOs said their businesses were increasingly eager to please a diverse range of customers, and this came with the added benefit of reducing risk across market segments," Gustafson said.

"Overall, it seems most are using M&A to improve outputs and the number of people those outputs are reaching. And while it's still a focus for some, fewer CFOs are using M&A to improve key inputs such as technology, talent and supply chains.

"M&A also isn't just about expansion. Almost a quarter of CFOs expecting their company to divest a business in the next 12 months, with key motivations either portfolio reshaping removing non-core components."

And looking ahead…

Gustafson said the majority of CFOs expected interest rates to fall over the next 12 months while a larger share of CFOs expect the exchange rate to remain stable.

"Expectations for rates over coming months are predominantly that they will be either the same or lower. This is a 180 degree reversal from this time last year, when no CFOs believed interest rates would decline over the next year," he said.

"And 36% believe the Australian dollar will be lower in 12 months as interest rate differentials increase."

HIGH COURT CONFIRMS ATO CAN USE INFORMATION FROM DATA LEAKS

The High Court confirmed that the ATO may use information obtained from data leaks, even if leaked from a law firm.

Second Commissioner Jeremy Hirschhorn said today's decision in Glencore International v. Commissioner of Taxation means the ATO can continue to use the 'Paradise Papers' and other similar data leaks.

"Today's decision is not just a win for the ATO; it's a win for the Australian community who rightly expect the ATO to use all information available to ensure large corporations and those who seek to hide money overseas are paying the right amount of tax," he said.

"The information in question was already in the public domain.

"Once we have information, we can't just ignore it – we are obliged to use all relevant information we have."

"It would be a perverse outcome if the ATO and the Courts were not allowed to take into account information that the public at large can access, or had to forget information that is known."

"This ruling ensures that the ATO will continue to be able to use information in its possession, and can make decisions based on all of the available facts. An offshore law firm is not a cloak of invisibility to hide offshore arrangements."

The ATO regularly receives new intelligence and data sources from Australia and across the globe.

"We are at the forefront of international cooperation through our active role in the Joint Chiefs of Global Tax Enforcement (J5) alliance and the Joint International Tax Shelter Information and Collaboration Network (JITSIC), as well as through measures such as Country by Country reporting," Mr Hirschhorn said.

International collaboration bolsters the information the ATO already receives domestically through compliance activities, including data-matching, working with AUSTRAC, ASIC, the AFP and other government authorities.

"The ATO will continue to use all information available to ensure large corporations and those trying to hide money overseas are paying the right amount of tax. Our wide and growing range of information sources and increased collaboration with overseas agencies are vital tools in achieving this objective."

"We will continue to work for all Australians in ensuring that our revenue base is not eroded by taxpayers not paying the right amount of tax in Australia. The broader ramifications of this decision beyond Glencore are that the days of being able to hide money overseas are rapidly coming to an end – not only are foreign banks providing the ATO with details of Australians with offshore money, but taxpayers are only one data leak away from their entire affairs being exposed."

The ATO fully supports the appropriate use of privilege and understands the importance of entities being able to seek advice on issues of law – we want taxpayers to have full access to high quality independent tax advice.

"We are working with key partners in the tax system to ensure that taxpayers can confidently continue to obtain high quality independent legal advice on their tax affairs, but also that the ATO can appropriately review transactions without having critical evidence withheld", Mr Hirschhorn said.

"The public may have the false impression that this case was about the ATO seeking to access legal advice. In reality, we are interested in facts, not someone else's analysis of tax law. The critical importance of the case was confirming that the ATO can use leaked copies of documents like contracts, board minutes and banking details."

BURNOUT: THE ADVENT OF THE MODERN BRAIN DRAIN?

Understanding how people can recover following career burnout may be just as difficult as unravelling the root cause, according to new research.

It's said that human beings require three things to be truly happy in life – someone to love, something to do and something to hope for. And that if you do something you love, you will never work a day in your life.

Yet, passionate and dedicated individuals like **small business owners**, **teachers** and **nurses** are burning out at alarming rates. In fact, burnout even affects individuals who work part-time, complete mundane tasks for a living or work for little to no paid reward.

We currently have minimal insight into how people experience the 'recovery' phase of burnout, how organisations help to facilitate this, if at all, and what implications this has for individual career trajectories and outcomes.

My doctoral research focuses on this neglected area of burnout and its fallout for individuals and organisations.

Burnout does not discriminate based on how long you work, how passionate you are or how interesting and valuable your work may be. It's commonly equated with its most obvious symptom, exhaustion.

More than just stress

However, three decades of research have proven that burnout is more than just a singular dimension of exhaustion, it is incapacitation at every level of your being, including your **personal affect and professional self-belief.**

People who are burnt out are not only physically exhausted – they become withdrawn, cynical and no longer believe in their ability to set and achieve goals.

Despite what is commonly believed, burnout does not arise solely from an excessive workload or work hours. Research on burnout has revealed five additional **stressors** that push individuals to this state of exhaustion, withdrawal and hopelessness:

- The amount of control you have in your job.
- The fairness with which decisions are made in your workplace.
- The level of social support you have at work.
- How you are rewarded.
- Whether or not you believe in your organisation's values.

Workplace stress is inevitable and, in some instances, can be healthy and motivating. Burnout, however, represents a state of persistent stress that slowly degrades an individual's personal resources – their resilience, identity and self-belief – to the point of harm. Burnout is also linked to increased cardiovascular events, depression, anxiety and alcohol abuse.

Beyond anecdotal evidence, there is little insight into this recovery phase, which is the focus of my research.

It's not me it's you

Even with this knowledge, much of the attention on burnout management has framed the issue as a problem with individuals rather than work environments.

Most people turn to person-centric interventions for assistance, such as exercise and mindfulness programs despite their negligible impact on the overall prevention and trajectory of burnout.

While there are countless suggestions on how individuals can find ways to combat burnout, the evidence is out as to whether or not these approaches work. They also concentrate on the individual and don't approach the problem organisationally.

Environmental changes – like designing jobs where individuals have more control over their output – are shown to be more **effective** but because they often require complex re-organisations, researchers have difficulty studying them and workplaces are unmotivated to enact them.

For example, despite the rise of digital nomads and increasingly flexible work practices, many organisations still remain wedded to the idea that a present worker is a productive worker – multinationals like IBM, Bank of America and Yahoo are a case in point, slashing their work-from-home policies citing a lack of productivity and collaboration.

One group of individuals resisting traditional expectations of work are **FIREs** – Financial Independence, Retire Early – who dedicate themselves to the early withdrawal from paid work, ideally within their thirties.

Of course, this involves acquiring sufficient cash and assets through hyper-frugality, investments and lifestyle changes in order to withdraw from the voluntary labour market.

New vistas into burnout management

If we want to stem the flow of burnout we need to turn our attention towards environmental changes – a burden that falls to both individuals and organisations who collectively perpetuate a work culture that normalises burnout.

Ironically, recovery measures for individuals with burnout have been developed without individual perspectives.

For example, the burden of repair is currently placed on individuals to manage their own stress through small lifestyle changes like well-timed holidays, exercise and mindfulness interventions with little regard for the social and practical impediments to these suggestions.

There isn't enough quality evidence to suggest the true utility or efficacy of any of these measures. While individual tips have been well documented in the media despite a lack of evidence, I am adopting a critical position of this person-centric view – my research is about integrating individual perspectives into environmental measures.

A key question for us as workers and knowledge producers is: how do we want the future of work to look beyond the 'rise and grind'?

About the Author

Margaret Lee is a Doctoral candidate within the Department of Management at Monash Business School. Her doctoral research is focused on post-burnout experiences and more broadly, narratives of contemporary work. Her research is supervised by Professor Kathleen Riach and Associate Professor Kohyar Kiazad. Margie holds a Bachelor of Arts (Media and Communications) and a Bachelor of Commerce (Management) with First Class Honours

This article was first published on **Impact**. Read the **original article**

REGIONAL OFFICE AND BRANCH NEWS

VIETNAM

The ICMA Regional Director, Mr. Long Phan, was the program facilitator in the CMA Program run in Hanoi during May and June 2019. The students came from a number of areas including manufacturing, eCommerce, academia, professional practice and government. All participants hold very senior positions in their respective industries.

The ICMA Regional Director, Mr. Long Phan seen here with the very happy students at the completion of the program.

ICMA INDONESIA BRANCH EVENTS

ICMA Indonesia Blockchain Accounting Forum 2019

President ICMA Indonesia was the keynote speaker at this seminar on 29 June 2019 in Sopo Dell Tower B Lt 10. Topic this Seminar was *"Blockchain Accounting: The Future of Accounting and Disruption".* Participant were from various backgrounds, including CEO, CFO, Finance Director, Financial Controller, Accounting Manager, Government, Consultant, etc., from various industries.

ICMA Indonesia Branch President, Mr. Daniel Godwin Sihotang, with the group of participants at the Blockchain Accounting Forum 2019.

Innovation Forum 2019

Innovation is the source of growth and the ultimate goal of innovation is mindset and behavioural change. Aligning with this situation, on May 25, 2019, ICMA Indonesia conducted the successful 1st event in innovation with topic, "Designing Your Innovation in the era of disruption and industrial 4.0".

Industry 4.0 innovations such as AI, Big Data, Blockchain, Fintech, IoT, ML, VR/AR, etc. have required us to advance our skills and capabilities. Finance and accounting professional, especially management accountant should be aware about this challenge for the future.

The guest speaker, Mr. Danny Kosasih from Innovesia Inc, Makedonia Makerspace and Innolab explained what is industry 4.0 is about; and how the strategy, design, use case, and closed with the exercise of innovation as an example. Mr. Nursakti Niko Rosandy was the moderator from ICMA Indonesia and Telkomsel; and is implementing a real situation in current day-to-day business related with technology and innovation.

ICMA Indonesia Branch President, Mr. Daniel Godwin Sihotang, with the group of participants at the Innovation Forum 2019. Also in the picture is Mr. Danny Kosasih, the presenter; Ms. Ervinawaty, CFO Ismaya Group; and Mr. Nursakti Niko Rosandy.

Signing MoU with Universitas Udayana BALI

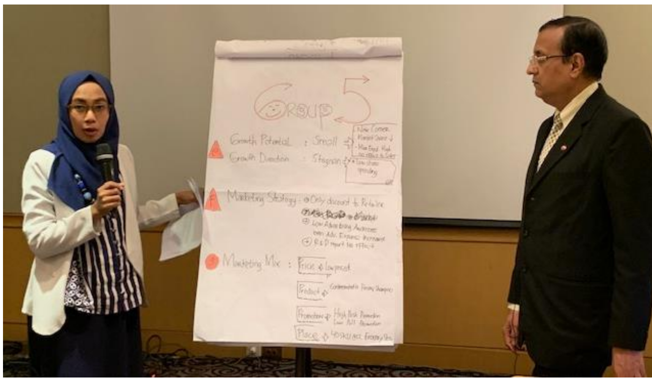
On 27 July 2019, ICMA Indonesia signed an MoU with University Udayana Bali. This MOU was signed by President ICMA Indonesia – Mr. Daniel Godwin Sihotang, CMA and the Rector of University Udayana Bali, Ibu Prof Dr.dr. Anak Agung Raka Sudewi.

Mr. Daniel Godwin Sihotang. and the Rector of University Udayana Bali, Ibu Prof Dr.dr. Anak Agung Raka Sudewi. After the signing ceremony.

5th CMA Program at Mercu Buana University

The 5th CMA intensive program organised by Dr Ana Sopanah of *Inspire Consulting* and *Mercu Buana University*, was conducted at *Ciputra Hotel*, in Jakarka, Indonesia on Feb 4 -10, 2019. The program was facilitated by Professor Janek Ratnatunga, the CEO of ICMA Australia and Dr Chris D'Souza, ICMA COO/CFO.

Participants of the 5th CMA Intensive Program listening intensively to Prof Janek Ratnatunga



Presentation being made by Group 5 Member on the Sauve Case. Dr Chris D'Souza, ICMA COO/CFO was the facilitator.

Participants of the 5th CMA Intensive Program with Prof Janek Ratnatunga, ICMA CEO, Dr Ana Sopanah of Inspire Consulting who organised the event; and Dr Chris D'Souza, ICMA COO/CFO.

Continuing Professional Development (CPD)

CPD Training was also conducted for ICMA members. They undertook the Certified Analyst in Project Management (CAPM) and Certified Analyst in Project Finance (CAPF) programs provided by the Academy of Finance and Management Australia (AFMA) at Mercu Buana University. Dr Chris D'Souza, ICMA COO/CFO conducted the Certified Analyst in Project Management (CAPM); and Prof Janek Ratnatunga, ICMA CEO, conducted the Certified Analyst in Project Finance (CAPF) seminars. They were undertaken by CMAS as part of their CPD requirements.

Participants of the Certified Analyst in Project Finance (CAPF) seminar with Prof Janek Ratnatunga and Dr Chris D'Souza.

Participants of the Certified Analyst in Project Management (CAPM) seminar with Dr Chris D'Souza the facilitator. with Dr Chris D'Souza, the seminar facilitator.

CMA EVENTS CALENDAR

- Certificate of Proficiency in Driving Business Value (SBA part 2), SMU Academy, Singapore 2 September 2019
- 47th CMA Preparatory Program, conducted by Business Sense Inc, Manila, Philippines 7 September 2019
- Certified Management Accountant (CMA) Program, Melbourne, Australia 21 September 2019
- 2nd CMA Train-the-Trainer Program, conducted by Workplace Skills Development Academy (WSDA), Dhaka, Bangladesh 11 October 2019
- 1st CMA Train-the-Trainer Program, conducted by Academy of Management Accountancy, Kathmandu, Nepal 18 October 2019
- Environmental Social & Governance for Sustainability Colloquium 23 October 2019
- Certificate of Proficiency in Strategic Cost Management, SMU Academy, Singapore 24 October 2019
- Certificate of Proficiency in Marketing & Pricing Analysis (SBA part 1), SMU Academy, Singapore (2nd Intake). 1 November 2019
- Certificate of Proficiency in Driving Business Value (SBA part 2), SMU Academy, Singapore (2nd Intake). 3 November 2019
- 26th CMA Preparatory Program, SMART Education Group, Dubai, UAE 9 November 2019
- Hall of Fame Awards Dinner, Melbourne, Australia20 November 2019
- Frontiers of Accounting Symposium 2019, Melbourne, Australia 21 November 2019
- ICMA 'Hall of Fame' programs in Indonesia, the Philippines, Vietnam, Hong Kong, Thailand and Singapore. 6 December 2019
- 6th CMA Intensive Program at Mercu Buana 9 February 2020

Private Providers

Wharton Institute of Technology and Science (WITS), Australia

Syme Business School, Australia

Academy of Finance, Sri Lanka

IPMI (Indonesian Institute for Management Development), Indonesia

Singapore Management University Academy (SMU Academy)

Business Sense, Inc. , Philippines

HBS for Certification and Training, Lebanon

SMART Education Group, UAE

Institute of Professional and Executive Management, Hong Kong

AFA Research and Education, Vietnam

Segal Training Institute, Iran

Ruwan Hulugalle & Co., Cambodia

PT Angka Bisnis Indonesia (Business Number Consulting), Indonesia

Inspire Consulting, Indonesia

ManAcc Consulting, New Zealand

STRACC Learning LLP, India

Workplace Skills Development Academy (WSDA), Bangladesh

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