ON TARGET

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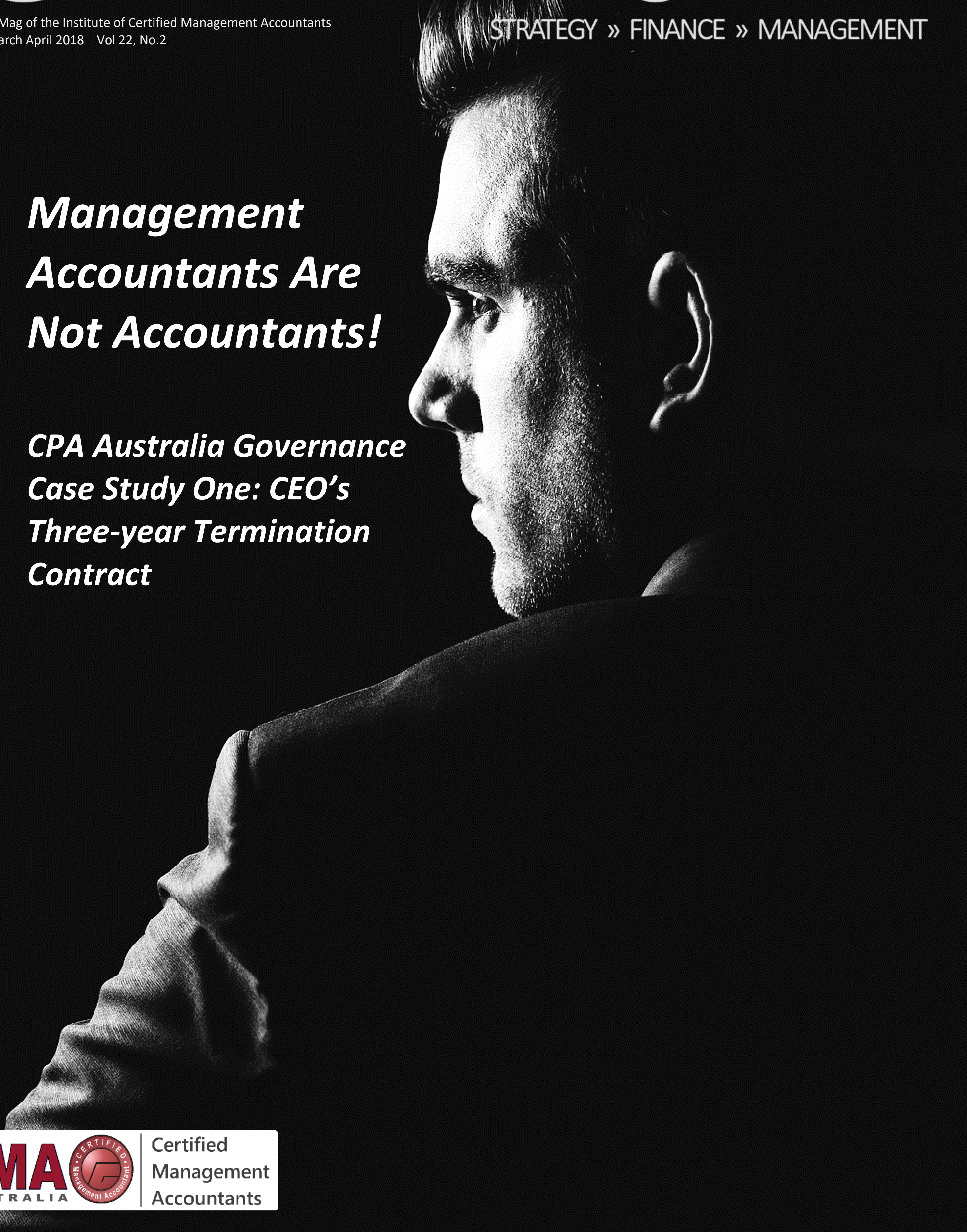

Management Accountants Are Not Accountants!

CPA Australia Governance Case Study One: CEO's Three-year Termination Contract

CMA AUSTRALIA Certified Management Accountants

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CEO Message: Management Accountants Are Not Accountants!

Prof Janek Ratnatunga

When I am asked as to what my profession is, and I respond "management accountant", I am often asked if I can audit and sign off financial statements; or do tax returns, or worse still I keep the books of a company! I have to politely say, *"I am not that kind of accountant"*, leaving my questioner extremely puzzled.

I try to explain that, drawing an analogy that *"a General Medical Practitioner and a Dentist are both health professionals, but have significantly different knowledge areas and employment skills – it is the same with generalist accountants and management accountants".*

My questioner has by this time lost interest in the topic!

The point is that whilst the basic qualification for both Accountant (General) and Management Accountant would be a undergraduate degree or equivalent professional qualification, the knowledge areas and employment skills required are as different as those required of General Medical Practitioners and of Dentists. Therefore, similar to the reasons why the *College of General Practitioners* does not assess the skills of dentists and leaves this instead to the *College of Dental Surgeons*; the ICMA is the peak national body for the management accounting profession.

Generalist Accountant vs. Management Accountant

The management accounting profession is no longer a mere specialisation of accounting, it is instead a separate profession. In the medical profession, the many specialisations within it have evolved to be professions in their own right in Australia; each with a particular body of knowledge and practical application. The practitioners of the different health professions cannot be grouped as different specialisations of medicine, and all practitioners (including general practitioners) have now to meet mandatory knowledge areas and employment skills of their different professional colleges.

Similarly, although accounting practitioners and their specialisations have not evolved as much as the health practitioners; management accounting is an exception to the rule. It has evolved over the past one hundred years; and is now seen not merely as a specialisation of accounting, but as a different profession with its own body of knowledge, mandatory knowledge areas and employment experience requirements. This is especially the case in other developed countries such as the UK, USA and Canada; which also have their own professional organisations for the education, training and continuing professional development of management accountants.

In fact, the Australian Bureau of Statistics **definition** of Accountant (General) is very different to that of Management Accountant.

Both professions are listed under UNIT GROUP 2211 ACCOUNTANTS; and state that ACCOUNTANTS provide services relating to financial reporting, taxation, auditing, insolvency, accounting information systems, budgeting, cost management, planning and decision-making by organisations and individuals; and provide advice on associated compliance and performance requirements to ensure statutory and strategic governance.

Three separate professions listed within the ACCOUNTANTS group. They are 221111 Accountant (General); 221112 Management Accountant and 221113 Taxation Accountant.

The ABS states that an 221111 Accountant (General*):*

Provides services relating to compliance-based financial reporting, auditing, insolvency and accounting information systems; and advises on associated record-keeping requirements. Registration or licensing may be required for certain services such as auditing. The 3-Specialisations listed under this profession are: (1) Financial Analyst; (2) Insolvency Consultant and (3) Insolvency Practitioner. In contrast, the ABS states that an 221112 Management Accountant (with an alternative title of Cost Accountant):

Provides services relating to performance-based financial reporting, asset valuation, budgetary systems, cost management, pricing, forecasting and the strategic governance of organisations. Provides advice on financial planning, risk management, carbon sequestration *projects and carbon pricing and provides management with reports to assist in decision-making. May provide insight into cost performance and support the implementation of benchmarking and quality improvement initiatives. Registration or licensing may be required. The 3-Specialisations listed under this profession are: (1) Carbon Accountant; (2) Commercial Accountant and (3) Product Accountant.*

These definitions indicate that an Accountant (General) is a financial accountant looking at the (past) *compliance*-based financial reporting; whilst the Management Accountant provides (future) strategic *performance*-based financial reporting (see Table 1).

As per the ABS definition, a financial accountant is a person who prepares financial statements that report on how an organisation has performed in the recent past and may undertake audits to ensure the veracity of those statements.

This is very different to the role of the management accountant, who provides the support managers need to make critical financial and operating decisions about the future. They do this by first analysing and interpreting “the numbers” then communicating the information that is relevant to their manager “clients”, to create value in the organisation.

The essential differences are therefore that:

- Financial accountants provide information to stakeholders external to the company about *howvalue was generated in the past*, whilst management accountants provide information to internal managers as to *how to create value in the future*.

- Financial accountants prepare reports that are primarily used by persons external to the company such as stockholders, tax professionals and lenders. The reports show concrete numbers, as well as past mistakes and achievements. These documents are objective, factual and avoid projections.

- Management accounting reports provide their recipients with benefits that are unique to each format and use the achievements of the past to provide estimates and insights into what might happen in the future. A manager needs projections and would rather use estimates on what will happen than reports on what has already happened because of the ever-changing financial terrain in business.

Management accounting and financial accounting both serve important roles within a business. These roles are significantly different, but ***equal in importance*.**

ICMA’s Mandatory Knowledge Areas for Management Accountants

Based on ICMA’s 21-years of research, education and training in the profession, it has developed competency requirements needed for the role of a management accountant that is significantly different to that of an accountant (general). An aspiring management accountant will need to cover all 10 of the mandatory knowledge areas as listed in Table 2.

It is expected that applicants with an Australian bachelor's degree in accounting or a 12 unit accredited Australian master's degree in accounting OR an overseas qualification comparable to at least the level of an Australian bachelor's degree in accounting will have covered the eight mandatory **core** knowledge areas listed in Table 2.

With regards to the two mandatory **specialist** knowledge areas (i.e. Strategic Cost Management and Strategic Business Analysis shown below), these can be undertaken at the many Australian and overseas **Universities**, and **Private Providers** accredited by ICMA.

Despite these clear differences between generalist accountants (who mainly practice financial accounting and auditing) and management accountants, it is unlikely that we would be able to change the societal perceptions of our profession. However, members may wish to educate those holding senior positions in government or business (such as CEOs and CFOs) of these important differences in the two professions.

A long-time ICMA Fellow member and one inducted to the Global Management Accounting Hall of Fame, **Mr. John Stanhope**, had this to say about the two professions. He says:

"I always knew the importance of management accounting. I had about 20 statutory accountants reporting to me and several hundred of management accountants reporting to me. Whilst the statutory accounts are important, it is the management accounting reporting and analysis that make for good decision making. It is important to recognise the role of the management accountant as pivotal to the success of businesses".

- ***Mr Stanhope is Chancellor of Deakin University, Chairman of Australia Post and former Deputy CFO and CFO of Telstra over a period of 17 years***

So true!

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.

TABLE 1: Key Differences Between Management Accounting and Financial Accounting

	Financial Accounting	*Management Accounting*
USERS	A financial accounting system produces information that is used by parties external to the organization, such as shareholders, bank and creditors.	A management accounting system produces information that is used within an organization, by managers and employees.
APPLICATIONS	Financial accounting assists managers to make investment decisions & in credit rating.	Management Accounting works with management to record, plan and control activities and to aid the decision-making process thereby actively supporting value creation in their organisations
FOCUS	Financial accounting focuses on history.	Management accounting utilises history to focus on future, probability and risk.
OBJECTIVES	To report on past results to present a snapshot of the financial condition of the business at a particular date.	To proactively support management by providing the critically important information required to plan, evaluate, and control.
LEGAL OBLIGA-TIONS	Financial accounting reports are mandatory especially for limited liability companies.	There are no legal requirements to prepare management accounting reports but, in their absence, managers fly blind.
STANDARDS	Financial accounting is required to follow strict International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles (GAAP).	There are no mandatory standards for Management Accounting reports. They are designed to meet the information requirements of management teams at all hierarchical levels of the organisation.
FORMAT	Financial accounts are prepared in accordance with a specific format determined by IFRS facilitating comparisons between the accounts prepared on behalf of different organizations.	No specific format is designed for management accounting systems. However, management accounting professional bodies provide best-practice reporting guidelines for their members.
TIME SPAN	Financial accounting statements are required to be produced for a period of 12 months defined as a fiscal period.	No specific time span is fixed for the publication of internal management accounting reports however a universally accepted convention is that the less current the information the less value it contributes.
UNIT OF MEASURE	Most financial accounting information is of a monetary nature.	Management accounting information may be monetary or alternatively non-monetary (process based).
CRITERIA	Financial accounting emphasizes precision & standardisation.	Management Accounting emphasizes on relevance to management.
THE PROCESS	Follows a full process of recording, classifying, and summarising for the purpose of analysis interpretation and disclosure of the financial information.	Cost accounting a critical Management Accounting function, analyses the relevant data captured within the transaction recording system in order to understand the drivers of cash flow and profitability.

TABLE 2: Mandatory Knowledge Areas in Management Accounting

Mandatory Knowledge Areas	*Management Accountant*
*Financial Modelling**	Core Knowledge
Economics	Core Knowledge
*Business Law and Governance***	Core Knowledge
Information Management	Core Knowledge
Strategic Management	Core Knowledge
Management Accounting	Core Knowledge
Financial Management	Core Knowledge
Financial Statement Analysis	Core Knowledge
*Strategic Cost Management****	Specialist Knowledge
*Strategic Business Analysis*****	Specialist Knowledge

* To demonstrate competency in **Financial Modelling** applicants must be able to demonstrate knowledge of the use of excel spread-sheeting techniques in varied business areas including accounting systems & processes, product costing, budgeting, profitability planning and investment appraisal.

****Business Law and Governance** includes both study in commercial law and corporations law.

*** **Strategic Cost Management** includes areas such as Lean Accounting, Life-cycle Costing; Ethics, Corporate Social Responsibility; Sustainability Accounting and Strategic Governance Systems.

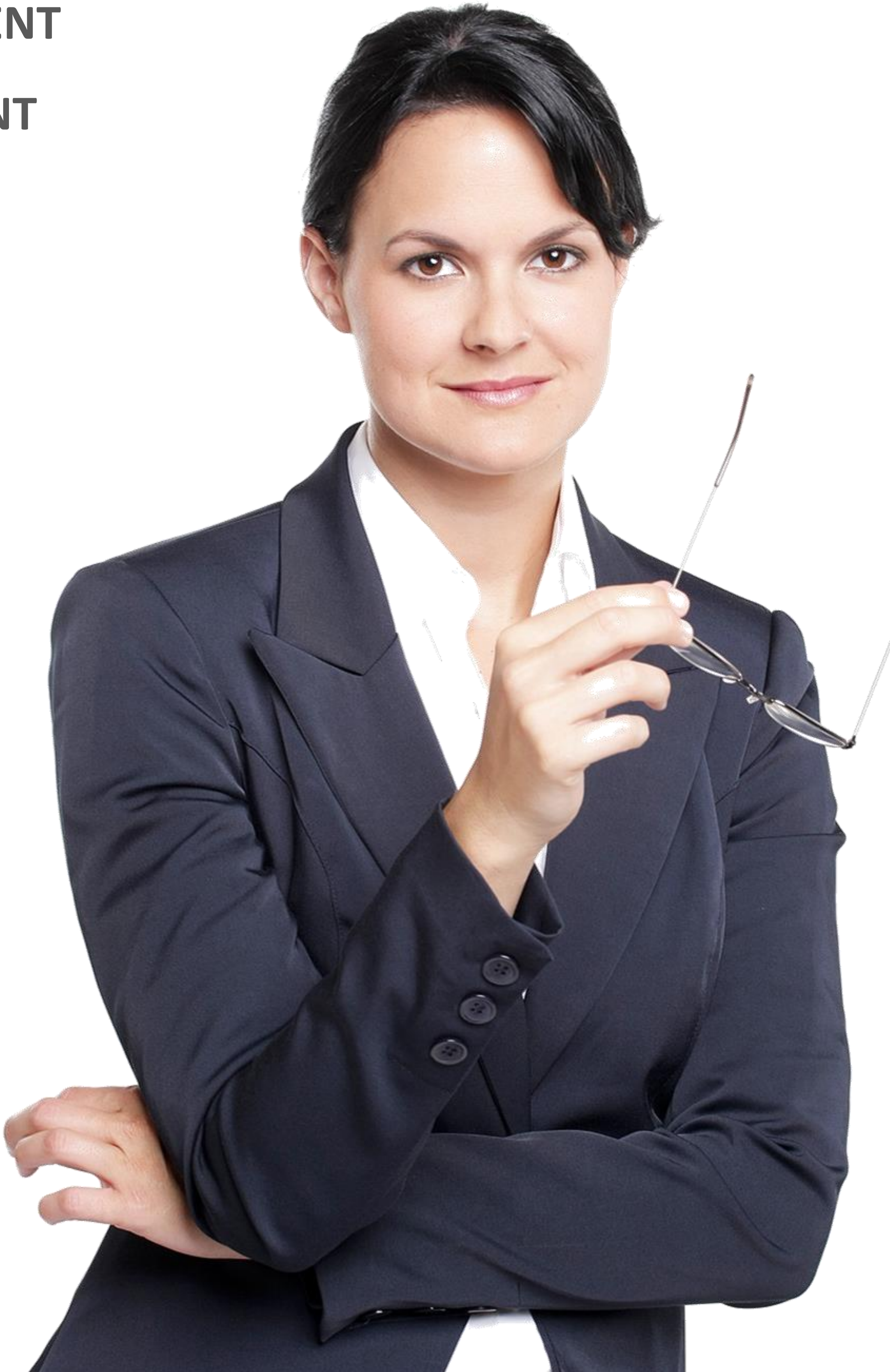
**** **Strategic Business Analysis** includes Marketing Budgeting; Pricing; International Business; Supply Chain Management and Risk Management.

THE

CERTIFIED

MANAGEMENT

ACCOUNTANT



Making sense of

the bottom line...

Australians On Notice to Keep Their Receipts

The ATO is warning taxpayers they will be paying close attention to claims for 'other' work-related expenses this year, and is reminding people to keep appropriate records.

Assistant Commissioner Kath Anderson said that last year 6.7 million taxpayers claimed a record $7.9 billion in deductions for 'other work-related expenses'. "It's a significant amount of money and Australians expect us to ensure that people are not over-claiming".

This year the ATO is shining a spotlight on 'other' deductions. Legitimate 'other work related expenses' can include home office, union fees, mobile phone and internet, overtime meals and tools and equipment.

"However, they are only deductible if they meet the three golden rules. Firstly, you must have paid for it and not been reimbursed, secondly, it must be directly related to earning your income and not a private expense, and thirdly, you must have a record to prove it."

Even though tax time is months away, taxpayers will be incurring expenses now. It's important to remember what you need to do to be able to claim a deduction.

"Many taxpayers make legitimate claims, but we are also seeing errors in some claims, and some taxpayers are making risky or outright false claims".

"Substantiation will be a key focus area for the ATO this year." Ms Anderson said. "It's important that you have a record of the expense and can demonstrate how you calculated your claims. Every year we disallow lots of claims because there is no evidence to prove the expense. Yet it's so easy to keep an electronic record".

"And remember, if your expenses are for both work and private use you can only claim a deduction for the work-related portion. We are seeing quite a few examples of people trying to claim the whole expense, including the private portion. Like some who incorrectly claim their entire phone and internet bundle, and others who claim an overseas study trip even though they had a holiday as part of the trip.

"These might not always be big amounts, but together they add up" said Ms Anderson. "Plus, no matter how small, it's not ok for someone to expect the rest of us to pay for their private expenses".

Ms Anderson warned that the ATO has sophisticated systems and analytics to ensure wrongdoing doesn't fly under the radar. "If a claim raises a red flag in the system, we will investigate further. We have a range of strategies to make sure people pay the correct amount of tax, ranging from help and education through to audits and even prosecution for more serious cases."

"This year we have reached over 1 million taxpayers to support correct reporting and address non-compliance around work-related expenses. So far these activities have resulted in adjustments of over $100 million."

Ms Anderson advised that to make tax time easier, taxpayers can use tools such as myDeductions in the ATO app to save and store accurate information about their deductions during the income year, which they can upload to their myTax return or provide to their tax agent.

"Last year tens of thousands of taxpayers uploaded details of their deductions directly into myTax or to their tax agent, and nine out of 10 of them told us they intend to use it again."

To find out more about what deductions you can legitimately claim this tax time, visit: **ato.gov.au/deductions**

To find out more about the penalties for making false or misleading statements, visit: **ato.gov.au/penalty**

For more information myDeductions, visit: **ato.gov.au/mydeductions**.

Trust Crucial to Business Success, Survey of Directors Shows

Australian directors overwhelmingly believe trust is important for their organisations' sustainability – over 62 percent believe their board can adequately challenge management on how to respond to issues that could undermine trust in their organisation.

However, fewer than half (48.4 percent) feel their board has a proactive approach to building trust with the organisation's most important stakeholders, and only 38.3 percent believe they have a proactive approach to building trust with all stakeholders.

Just 23 percent believe they receive 'meaningful' metrics on trust in their organisations.

These are the findings of a survey, by KPMG and the Australian Institute of Company Directors, of 600 AICD members to be released at the Australian Governance Summit on 1 March 2018.

The report found that 41.6 percent of respondents said they had pro-actively tried to uncover issues which had the potential to undermine trust in the business. Fewer than half (45.8 percent) said they had had to deal with such damaging issues in the past year.

In terms of the most critical factors for building trust, regular communication with stakeholders (82 percent) and transparency of business operations (78 percent) were the top two responses.

'Internal culture and practices' was regarded by directors as the biggest trust-related challenge facing their companies – ahead of both customer satisfaction and the financial stability of the organisation.

In a sign of changing times, in listing the most critical stakeholders to maintain trust in the organisation, 'the local community in which we operate' came third – ahead of government and investors. Customers and employees were the biggest two response categories.

Alison Kitchen, KPMG Australia Chairman, said: "Our survey shows increasing awareness among directors of trust as a key issue with the potential to damage organisations. But it is concerning that a sizeable minority of directors feel they are unable to satisfactorily challenge management on such issues, or indeed receive adequate reports on them.

"The fact that less than a quarter of respondents receive adequate performance metrics on trust in their organisations represents a potential blind spot for boards. It is important that the issue of trust is embedded into regular management reports and board conversations, so progress can be monitored."

"It seems that internal culture and practices are the biggest obstacle that directors face in trying to improve the corporate culture in their organisations – which the AICD's own research shows that 90 percent of directors are. Given the well-documented loss of trust in business and institutions in society, companies must become more pro-active in reshaping their procedures in addressing trust-related issues."

AICD Managing Director & CEO Angus Armour said that the report clearly showed that directors took seriously the task of rebuilding and retaining trust.

"These results show that directors from all sectors, from listed businesses to not-for-profits, have heard and are responding to the community's voice. The strong focus by directors on the need to have robust internal cultures and practices in order to rebuild trust reflects that social expectation," he said.

"The KPMG-AICD Trust Survey presents a valuable tool for directors to reflect on their own practices and ways to improve their approaches to rebuilding community trust. This is more important than ever as we enter a new period of innovation and workforce transformation which will transparency, accountability and openness between directors and all stakeholders."

Richard Boele, Partner, KPMG Banarra, Human Rights and Social Impact Services, said: "The survey shows a degree of increased understanding of the 'social licence' issue – I suspect a few years ago the local community would not have been third in the list of important stakeholders.

"Boards need to ask: What stakeholder voices are we hearing? Who is excluded from the conversation, and how do we ensure they have the opportunity to participate? Do we have the appropriate internal capacity, expertise – and willingness – to actively and authentically listen to all stakeholders? How do we equip our people to better listen? This will help introduce a social licence lens to conversations on corporate trust."

Survey respondents represent organisations across all sectors with 40.7 percent coming from private business, 30.8 percent NFPs, 14.0 percent public sector, and 11.2 percent from listed companies.

Significant Gaps Between Working Women's Career Goals and Reality

Australian workplaces are not ready to meet young women's career aspirations or support their future success, according to a new national report by University of Sydney researchers. "We are talking more about robots than we are about women in the future of work debate – this must change," said co-author of the report, **Professor Rae Cooper**.

The ***Women and the Future of Work*** report reveals the gaps and traps between young working women's aspirations and their current working realities.

"There are significant gaps in job security, respect, access to flexibility and training," said **Dr Elizabeth Hill**, co-author of the report.

"Government, businesses and industry need to step up and take action so that our highly educated and highly skilled young women are central to the future of work."

The team of researchers from the University of Sydney's **Women, Work & Leadership Research Group**, surveyed more than 2000 working women aged 16 to 40, who were representative of the workforce nationally.

The report is the first of its kind and found that young women were generally not concerned about job loss as a result of automation and economic change.

"Almost two-thirds of the women we surveyed said they didn't fear robots coming for their jobs in the future," Professor Cooper said.

"Our national debate about the future of work is too often a hyper-masculinised, metallic version of work.

"For young women, their picture of the future workforce is quite different: they see themselves balancing family and work commitments, and having long, meaningful careers. For this to be a reality, we need mutually beneficial flexibility in all workplaces."

Respect and access to flexibility critical for women

The survey found being treated with respect and having job security were critical to ensuring young women's future careers.

Despite 90 percent of women identifying access to flexibility as important, only 16 percent strongly agreed that they have access to the flexibility they need.

"Young women workers are generally optimistic about work and ready to contribute," Dr Hill said. "But they find themselves caught in gaps between what they need and what the workforce offers."

The majority of working women report that developing the right skills and qualifications is important for success at work (92 percent). However, only 40 percent said they can access affordable training to equip them for better jobs.

"Public policy settings, while improving, remain inadequate," Dr Hill said. "Projected growth in feminised, low-paid jobs in health care and social assistance suggests an urgent need for government action to ensure these jobs meet the criteria of decent work.

"Current trends toward fragmentation and the contracting out of employment are undermining many of the criteria of decent work, making this a pressing policy issue for gender equality in the future of work," Dr Hill said.

More women than robots in future workplaces

The survey also indicated young women often feel 'disrespected' by senior colleagues and supervisors because of their gender. This was the case both for highly paid professionals and low-paid workers.

Ten percent of respondents said they were experiencing sexual harassment in their current workplace. Some groups of women reported higher rates of harassment including:

- women currently studying (14 percent compared to 8 percent who are not studying)
- women living with a disability (18 percent compared to 9 percent not living with a disability)
- women born in Asia or culturally and linguistically diverse women (16 percent compared to 8 percent who are not culturally or linguistically diverse).

"Employers need to commit and act to create workplaces where women are respected and valued for their expertise," Professor Cooper said.

"There will be more women than robots in the future of work. It's time that households, government, businesses and employers listen to them."

Dr Hill said: "We are urgently calling on the government to facilitate and implement a public policy framework that supports young women's career aspirations.

"We need to work towards a future where women are valued in the workplace and for their work."

The data collection and analysis for this research focused on working 16-40 year old Australians, and was undertaken by **Ipsos Australia**. It was collected in September-November 2017, and includes: a nationally representative online survey of 2,100 women; a survey of 500 men; a booster survey of 50 Aboriginal and Torres Strait Islander women; and five in-person focus groups of working women.

Black Economy Could Generate Up To $5 Billion Per Annum in Additional Commonwealth Revenue

A concerted crackdown on the black economy could generate up to $5 billion per annum in additional Commonwealth revenue alone, a KPMG report, The Last Frontier, has revealed.

The states and territories would also stand to gain large amounts of extra revenue from the proposed crackdown through the GST and state taxes and charges.

Using a methodology employed by the Australian Bureau of Statistics (ABS), KPMG estimates the size of Australia's black economy at $32 billion per annum.

The Commonwealth Government has taken steps to bolster the capacity of the Australian Taxation Office (ATO) to deal with the black economy's impact on the tax system, suggesting an expected return of around $14 for each $1 in extra ATO resources.

KPMG urges the allocation of $100 million to $400 million per annum to the ATO for additional enforcement activity. The revenue-to-expenditure ratio of this investment would conservatively be at least 7:1 – so raising additional revenue of $700 million to $2.8 billion – and may be substantially greater. Other taxation revenue for the states and territories would be a further natural consequence.

In addition to tackling tax evasion through organised crime, KPMG proposes a suite of ten measures to deal with the under-reporting of revenue and income, including:

- Providing limited amnesty for businesses to voluntarily disclose incorrect tax reporting, followed by a second stage where employees can disclose their under-reported wages and the employer's associated failure to withhold PAYG tax. Subsequently, increased penalties would apply to businesses that did not participate in the amnesty.
- Legislating to deny income tax deductions for cash payments to employees, contractors and tradespeople and other service providers.
- Strengthening the evidentiary requirements for eligibility to obtain an Australian Business Number (ABN) to crack down on their use for sham contracting purposes.
- Making a clean tax history a requirement for participating in Federal, state and local government tenders.
- Banning cash transactions for amounts exceeding $10,000.
- Implementing a government "one stop shop" for all necessary business and employer registrations.
- Tying vendor rights to maintenance of invoice records and evidence of electronic payment.

Grant Wardell-Johnson, KPMG Partner, Economics & Tax Centre, said: "Adopting these measures would increase the fairness of the tax system and level the playing field between dishonest and honest businesses and individuals. It would also support community ethics and rebuild trust, as honest taxpayers witnessed the reduced incidence of others cheating the system at their expense.

"At a time when other revenue measures are struggling for bipartisan support, the proposed crackdown on the black economy is more likely to gain passage through the Senate, generating much-needed additional revenue for budget repair."

Money Does Affect Your Happiness, But It's Complicated

Having money helps, but economists are learning there are other things we need to feel happy, writes Gigi Foster. We're often told that money can't buy happiness. In fact, economists' focus on income instead of happiness is one reason some people hate us.

But if you think there's no link between money and happiness, think again.

Traditional microeconomic policy advice has focused on keeping markets purring along competitively, with low barriers to market participation, plenty of information accessible to all actual or potential market participants, and other fine features that in theory allow society to get the biggest bang from individuals' pursuit of their own greedy interests.

This is philosopher and economist Adam Smith's famous 'invisible hand' mechanism: make markets free and competitive, and let that competition spur the prospering of society.

But what if Smith's invisible hand is directing everyone to the wrong objective?

As Russell Crowe's character asks in *A Beautiful Mind*: is Smith's theory "incomplete"?

Testing the Easterlin Paradox

It turns out that not only hippies, but even some economists today, think we might be barking up the wrong tree.

After all, money is a materialistic target, unlikely by itself to bring us what we really desire in the long run — namely, for most of us anyway, happiness.

Even "consumer surplus", that hidden enjoyment of stuff we've bought that forms part of what the invisible hand targets, is not really equivalent to "happiness" in most people's books.

Happiness is deeper, more wholesome, more spiritual even, than money or the fleeting pleasures we get from materialistic consumption. Right?

Economist Betsey Stevenson, who advised former US president Barack Obama, says money has a bit more going for it.

She and economist Justin Wolfers set out to test the theory that income and happiness were unrelated across countries, something reported by Richard Easterlin in a paper so famous that his findings were christened the Easterlin Paradox.

The alleged paradox was that while richer people were demonstrably happier than poorer people within the same country, richer countries — or so it appeared — did not report higher average happiness levels than poorer countries.

Professor Stevenson and Professor Wolfers just didn't believe this could be true, so they set out on an econometric mission to test the evidence for Easterlin's paradox.

Using new data and paying careful attention to measurement, the research team re-did the analysis — serendipitously assisted by a graduate student who provided accurate translations of Japanese statistical manuals — and found that the association between income and happiness was just as strong across countries as it was within them.

Not only that, but according to their analysis, per capita income was the single strongest predictor of happiness levels across countries.

'Robin Hood' policies might just boost happiness

Where does all this leave economic policy advisors?

The first implication is that the goal of economic development (per capita income growth), to which most countries in the world implicitly aspire, is a worthy one, in terms of delivering the thing that most people want — happiness.

This means a thumbs-up for traditional microeconomic policy advice about facilitating the seamless purring of surplus-maximising markets (lower information barriers, inject more competition, and so on), and also for efforts that help other countries develop.

Because the relationship between income and happiness is nonlinear, Professor Stevenson points out, another implication is that the progressive Robin Hood-style policies that economists typically recommend of taking from the rich (in the form of higher taxes) and giving to the poor (in the form of higher levels of government assistance) should be expected to raise the aggregate happiness of a nation.

Her team's results also beg the question — what is it exactly that income buys us that makes us so happy?

Professor Stevenson suggests some likely contenders, including better health care and an increased degree of choice in various dimensions of life.

Do the hippies have a leg left to stand on?

Professor Stevenson suggests that despite the strong relationship between money and happiness documented in her work, there are still some things that relate to happiness, but not to money.

She suggests that our degree of involvement in our communities and relationships is likely to top this list.

In a paper entitled *The Paradox of Declining Female Happiness*, Professor Stevenson and Professor Wolfers investigate whether the frequently bemoaned decline in the strength of local communities in the modern era might even be part of the reason why rates of female happiness have been declining in developed countries.

"In the 1970s, women in such countries were statistically happier than men, and in that era more female happiness came from their happiness in their marriage," Professor Stevenson says.

Paradoxically, in spite of women's massive economic gains relative to men since that time, women's happiness advantage over men has eroded.

A microeconomic model of happiness

Today, according to Professor Stevenson's research, marital satisfaction is less strongly associated with overall life satisfaction, and "job satisfaction and other aspects of personal happiness matter more for women".

Some governments, it seems, are starting to recognise the sources of happiness that lie beyond money.

In the United Kingdom, as a prime example, economic researchers are building the world's first microeconomic model of happiness.

They figure that if they learn more about how happiness (not just goods and services) is produced, they can then suggest large-scale policy interventions that have a shot at lifting the happiness of the whole nation.

Early conversations indicate that policy targets arising from this work might include supporting the mental health of adults, promoting good parenting behaviours, or minimising adult loneliness.

Since the time of Smith, the profession of economics has held as its ultimate target the promotion of total welfare. The advice we give to policymakers has historically shot for this goal.

If money is not the only road to welfare (even if it's a big player), perhaps we are on the cusp of seeing a broader role for economic advisers — one in which they directly target happiness, rather than focusing only on the stewardship of markets.

It seems the science of economics is not so dismal after all.

About the author

Dr Gigi Foster *is one of Australia's leading economics communicators and an Associate Professor in the School of Economics at UNSW. She co-hosts* ***The Economists****.*

CPA Australia Governance Case Study One: CEO's Three-year Termination Contract

By Brett Stevenson.

Lesson one of Brett's blog post provided a brief introduction the overall principle of the individual responsibility of board members. This case study using the $4.9 million termination payment to the CEO Alex Malley based on a three year termination contract provides an excellent way to illustrate this principle.

A. The Background

You have recently completed your directors course with the AICD (Australian Institute of Company Directors) or the GIA (Governance Institute of Australia), and being a long standing member member of CPA Australia, you have been appointed to their board (along with another member) on 1st October 2016. Your first board meeting is coming up on 7th October, 2016. You are rearing to go. You do know that you will be on an annual remuneration of at least $98,604. You do recall an article in the AFR in Feb 2016 criticising the large marketing spend focussed on the CEO Alex Malley, and you have had similar concerns yourself, but nothing has seemingly come of that and the divisional councillors that you know haven't mentioned it as an issue. You don't know any of the other board members personally however they appear to carry some significant reputational weight so you feel encouraged.

Questions

1. Who are the two board members that commenced on 1st October 2016? (refer the spreadsheet of **board members by year**, or the 2016 annual report, and also page 26 of Board Note to Members **31st May 2017**).

2. Have a look at the CV's of the the directors in the CPA Australia Annual Report **(p.57-62).** Can you identify those with a legal, political, academic and public accounting background? How about the positions of those from Macquarie and Sydney Universities? Identify the two non-CPA members? Is this a reasonable skills-based selection of directors? How about gender balance?

B. Your First Board Meeting 7th October 2016

You and the other new board member are welcomed, the new Chair (Tyrone Carlin) takes over from the previous Chair (Graeme Wade who held it for 2 years). The first item of business is the CEO (Alex Malleys) contract. You were surprised when they said his current annual salary was $1,786,000 (which included $250,000 from the fully owned subsidiary CPA Australia Advice). You were even more surprised when you saw that his current contract provided a two-year notice period for termination as you knew that public listed companies cannot provide for greater than one year without shareholder approval.

When you read the attached external consultants advice (from February 2015) that the two year notice period was well above executive contracts, you expected that they might be looking to reduce this to one year. So when the Chair of the Nominations and Remunerations Committee (Graeme Wade, who recently took over from Richard Petty who had filled the role for the previous six years) said that the Committee recommended increasing the notice period from two to three years, you almost fell off your chair. The other N & R Committee members who spoke in support were Kerry Ryan, Jim Dickson and Tyrone Carlin. A vote was taken by asking if anyone disagreed with the recommendation, and without one hand being raised, the decision was made unanimously.

Questions

3. Make sure the above narration is factual by referring to the spreadsheet of Board members (from the annual report) and the Independent Review Panel's Final Report **p.56-7.**

4. Should this or the other directors have acted differently? Give two reasons why this was not okay, and any reasons why it was okay?

5. What objections should have been raised by the board of directors at this stage?

6. What questions should have been asked of the Nominations and Remunerations Committee? Do you think this might have indicated some deeper concerns?

7. Why did the N & R Committee recommend this increase to three years at this time?

8. What could/should the two new board members have done during this discussion?

9. Can good 'searching and deeper' questions from individual board members prevent group-think on a board?

C. What The CPA Leadership Said Of This In March And May 2017

2nd March 2017. *"Far from a circumstance where directors have sought a remuneration framework essentially guaranteed to deliver escalation over time, they sought and gained the support of the membership to alter the constitution to allow the exercise of prudence and restraint. And they have lived to that. No office bearer's remuneration was the subject of a request for the approval of an increase in either 2014, 2015 or 2016 and there is no evident mood to alter this approach in the foreseeable future. By contrast, modest increases have been approved for non-office bearing directors over the same period, after the application of extensive market testing and rigorous external advice. The same considered rigour is applied to remuneration framework for the Chief Executive and by extension other staff of CPA Australia".*

16th March 2017. *"Board remuneration and chief executive remuneration is in line with the market, based on regular advice obtained from independent remuneration consultants. Additionally, the chief executive remuneration is also recommended by the Nomination and Remuneration Committee and approved by the Board. Similarly, staff remuneration is also regularly benchmarked by external remuneration specialists. Remuneration includes performance payments based on achieving Board-approved key long-term incentive and short-term incentive performance indicators linked to the company's strategic objectives".*

"Under what is allowed in the Constitution and taking into account the organisation's capacity to pay, neither Directors nor staff are remunerated excessively to the detriment of the organisation" (p.6).

31st May 2017. *"Board and chief executive remuneration is in line with the market and the scope of the organisation, based on regular advice obtained from independent, external remuneration consultants"* (p.12).

"The remuneration of the Chief Executive is approved by the Board and the organisation's remuneration framework is approved by the Board Nomination and Remuneration Committee. Similarly, staff remuneration is regularly benchmarked, including in international markets, by external remuneration specialists globally" (p.13).

Questions

10. Have there been any changes in the leadership (Board and senior executive) of CPA Australia from 7th October 2016 to the dates of the above notes? (Hint. No)

11. What two 'parties' are responsible for the remuneration contract of the CEO?

12. Did the Board and Nom and Rem Committee listen to the advice of the "independent, external remuneration consultants in relation to the CEO's three year termination contract?

13. Are there any reasons why they would not have reduced the then two year termination contract to one year?

14. Are there any reasons why they increased it from two to three years after reading their above statements made 6 months later?

15. Is the 'reasonable person' in the directors positions test of any relevance in relation to this three year termination contract?

16. Were these responses from CPA Australia misleading in relation to the CEO's remuneration?

17. Are there any legitimate reasons why the Board should not have disclosed to the members not only the CEO's salary but also the three year termination notice period in his contract?

D. What The 'Old' Board Said Of The CEO's Termination Payment 23 June 2017.

"At its meeting today, the Board decided to terminate Alex's contract in order to allow CPA Australia, CPA Australia staff and Alex to move forward. In the interests of full disclosure, CPA Australia has made a payment of $4.9 million in accordance with our obligations".

Questions

18. Is this 'full disclosure'?

19. Given that seven of the twelve Board resigned just prior to this, do you think the directors who resigned should have been more forthcoming with their reasons, especially if they related to this potential termination payment?

E. What The Independent Review Panels Said Of These Responses By CPA Australia In Nov 2017.

"The Board should have responded much earlier to issues raised publicly regarding CPA Australia's management, strategy and executive remuneration……. There was extensive coverage on the AGM's location, executive remuneration and the views of disgruntled CPA members in March and April 2017, which continued into May and June 2017……did not translate into a timely public response or explanation." **(p.23 Final Report)**

Questions

20. Why did the IRP Final Report say there was not a timely response when CPA did respond very quickly on 2nd March, 16th March and 31st May?

F. What The Independent Review Panel Said Of The CEO's Termination Payment In Nov 2017.

"The former CEO's employment contract termination payment was excessive.

The Board decisions and papers do not provide any further background on the decision to extend the notice period. This reflects very poorly on the former Board, given the size of the termination payment being well above any comparable benchmark.

The Review Panel requested all relevant background material and documentation, including Board minutes and relevant external advice relating to the former CEO's termination payment. Wherever possible, CPA Australia's provided the requested documents. Where there were strict confidentiality provisions affecting relevant materials, documents were sighted by a member of the Review Panel (the Review Panel Members having signed Non-Disclosure Agreements). The Review Panel is satisfied, and agrees with CPA Australia that the former CEO's termination payment was paid in accordance with CPA Australia's obligations. On the basis of the information reviewed, CPA Australia has no ability to recover the former CEO's termination payment.

The Review Panel cannot disclose any part of the former CEO's employment contract due to confidentiality obligations binding CPA Australia and the former CEO. Any disclosure of the former CEO's employment contract is a matter for the Board and the former CEO" (p. 56-57).

Questions

21. Why did the IRP Final Report say (p.4 & 57) "that CPA Australia has no ability to recover the termination payment" while elsewhere saying "this review is not…intended to provide legal advice or develop evidence for the purposes of any legal action" (p.18)?

22. Why did the Board agree to this being a confidential agreement given CPA Australia is a professional membership organisation and public company?

23. What other legal options could be considered in relation to this termination payment?

24. Why didn't the Independent Review Panel in its Final Report mention these as possibilities given 18 above?

25. Can confidentiality agreements such as this one potentially 'hide' breaches of directors duties because access to relevant information is restricted?

26. Should professional membership organisations be forbidden from signing confidential employment contracts with key management personnel?

G. What The New Board Has Said About The Termination Payment And Legal Action In Feb 2018.

"…..the new Board has undertaken our own inquiries about the duties of the former directors.

The Board, through myself as President and Deputy President Merran Kelsall, have met with partners in a leading law firm and with Queen's Counsel.

The Board is of the view that there is no basis to take action against CPA Australia's past directors" **(Statement from the Board 9/2/18).**

Questions

27. Is there a difference between meeting with lawyers to discuss legal action, and writing a legal brief/getting legal opinion?

28. Why wouldn't the new Board have a legal brief written to obtain legal opinion on this matter?

29. Has the new Board conflated their unwillingness to take legal action on the CEO's termination payment to include all other possible areas for legal action against the past directors?

30. Is there any legal obligation on the new Board to genuinely investigate possible breaches of directors duties by the previous board based on the prima facie evidence of what has been exposed over the last year?

31. Why isn't ASIC investigating this matter? What sort of example does this set for the leadership of other companies?

Technology Improves Compliance, But Also Increases Costs

Technology may ease the compliance burden for banks, but it's not driving down compliance budgets, according to **Bank Director**'s **2018 Risk Survey**, sponsored by Moss Adams LLP. In fact, 55 percent of the directors, chief executive officers, chief risk officers and senior executives responding to the survey say that the introduction of technology to improve the compliance function has increased the budget. Just 5 percent say that technology has decreased their compliance costs.

These technological solutions—dubbed "regtech"—are widely used in the industry. The majority of respondents indicate that technology is used to comply with the Bank Secrecy Act, vendor management, Know Your Customers rules and the Community Reinvestment Act.

The **2018 Risk Survey** was conducted in January 2018, and surveyed 224 chief executive officers, chief risk officers, senior executives and board members of U.S. banks above $250 million in assets to examine their views on the risk landscape for the banking industry, including cybersecurity, credit risk and the impact of rising interest rates.

Cybersecurity remains a top category of concern for executives and directors. "Cybersecurity continues to be the No. 1 threat that keeps bankers up at night," says Al Dominick, CEO of Bank Director. "From year to year in our survey, boards and executives demonstrate a consistent effort to tackle the issue, but it's hard to stay ahead of cybercriminals—and the industry is well aware of this."

Additional findings include:

- Sixty-nine percent believe that their bank has an adequate level of in-house expertise to address cybersecurity.
- All respondents say their bank has an incident response plan in place to address a cyber incident. However, 37 percent are unsure if that plan will be effective.
- Sixty-nine percent say the bank conducted a table top exercise—a simulated cyberattack—in 2017.
- If the Federal Reserve's Federal Open Market Committee raises interest rates significantly—defined in the survey as a rise of 1 to 3 points—45 percent expect their bank to lose some deposits, but don't believe this will significantly impact the bank's growth. Seven percent expect a loss of deposits that will negatively impact the bank, and 16 percent believe that their bank will be more competitive among depositors in a rising rate environment.
- Given the disruption in technology, forecasted rate changes and pressure in regulatory compliance, there's a perfect storm brewing in the banking industry that needs to be carefully navigated by both the board and bank management," says Craig Sanders, a partner at survey sponsor Moss Adams.

From Kebab Shop to Chiropractor, You Can Now Instantly Check Your Business Performance

The ATO has released its latest small business benchmarks, providing over 100 different industries with average cost of sales and average total expenses. Businesses as varied as seafood retailers, bricklayers and dentists can see clearly what the relevant benchmarks are for their industry.

Assistant Commissioner Matthew Bambrick said that the benchmarks are a great way for businesses to see how they compare to others in their industry.

“Our benchmark data is from income tax returns and activity statements of over 1.4 million small businesses around the country. With such a large data set, things like locality and different business circumstances are included when we calculate the average range for each industry.

“Businesses can use these benchmarks not just to check that they’re getting their tax and reporting obligations right, but also to provide information to support their decisions on how to improve their profitability.

“We have seen examples such as a café bought for $45,000 that quadrupled in value within five years because the owners looked at the benchmarks and adapted their business, including a point of sale system that provided much improved reporting. This gave them a far better view of what was working and what wasn’t, both the menu and the opening hours – and the changes they made significantly increased their profit and the value of their business.

“Being outside the benchmarks may mean you’re doing something much better than your competitors or there may be areas you can improve on. The benchmarks are a great indicator to help gauge the health of your business.”

The quickest and easiest way to work out how you compare is by using the business performance check tool in the ATO app, which does the calculations for you.

“On our website, we have step-by-step instructions and a check list of the information you need to work out how your business stacks up. You can also talk to your registered tax agent if you want some help or have questions on what you may be able to do to improve your business performance,” Mr Bambrick said.

Mr Bambrick said that being outside the benchmarks can sometimes be caused by easily-fixed administrative errors.

“You may have recorded something under the wrong label, forgotten to include a figure, or used the wrong business industry code. Business industry codes can change over time as a business progresses or diversifies, so check that your code is still up to date. If businesses find they have made a mistake, they can contact us and make a voluntary disclosure.”

In addition to being a useful guide, small business benchmarks are also one of the tools the ATO uses to ensure a level playing field. The ATO uses tools like benchmarks and data matching to protect honest businesses from competitors who are trying to get ahead by avoiding their tax obligations.

To see how your business stacks up against the industry average, visit **ato.gov.au/businessbenchmarks**

Establishment of The Syme Business School

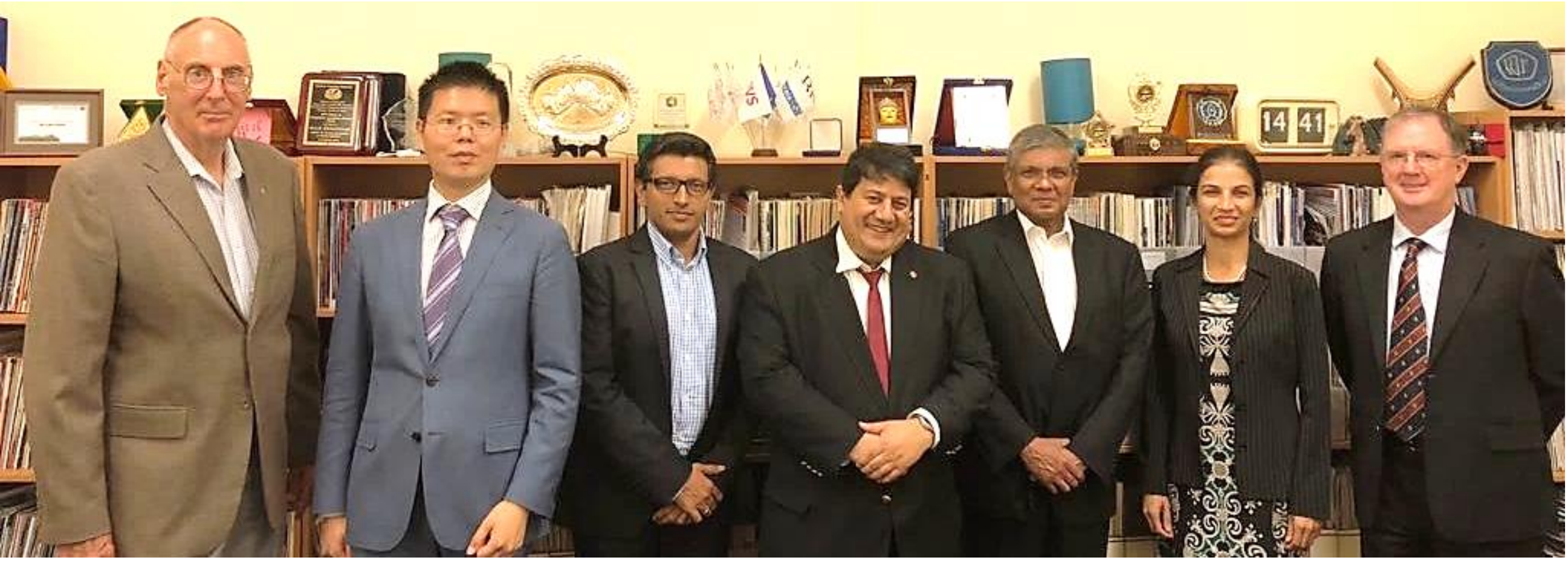
Upon obtaining unanimous approval at the AGM, the Syme Business School was set up with ICMA holding majority shareholdings to submit an application to be a higher education provider to the Tertiary Education Quality and Standards Agency (TEQSA) for a Graduate Diploma in Management Accounting.

SYME BUSINESS SCHOOL

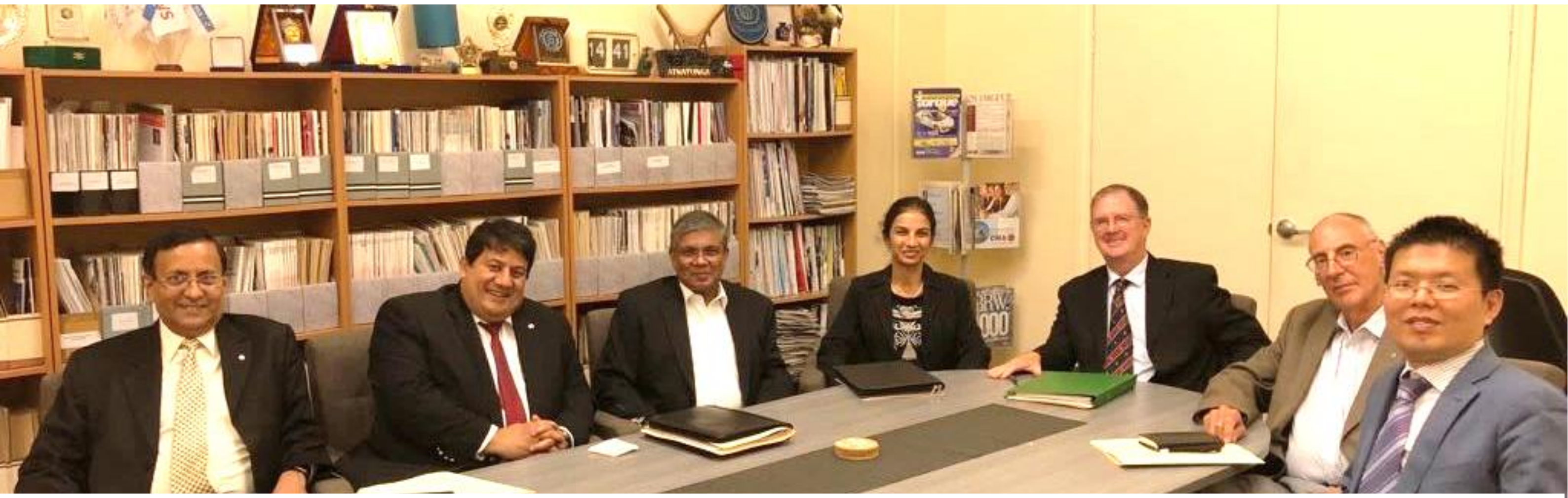
The principal business of the Company will be the provision of higher education services. The primary purpose of the Company is to operate as a quality provider of higher education and other non-award courses to domestic students.

To achieve the primary purpose, the Company will: (a) ensure free intellectual inquiry in its academic endeavours; (b) create a governance structure which has a clear distinction between corporate and academic governance; (c) develop infrastructure and resources to meet the higher education and training need of courses delivered by the company; (d) comply with the regulatory framework and associated acts and regulations as amended from time-to-time for the smooth delivery of higher education courses; (e) ensure institutional policies and procedures accommodate equity and diversity, including consideration for people of aboriginal and Torres strait islander background; (f) ensure academic staff are encouraged and supported in participation in scholarly activity and research; (g) develop relationships and industry partnerships which contribute to practical graduate attributes and improve graduate employment opportunities and ensure that institutional policies and procedures guarantee the safety and wellbeing of all children and young people.

The initial board of directors comprises of Mr David Cartney, (Chairman); Mr William Dix, AO; Prof Peter Chandler, AO, Prof Michael Tse Ms Karen Dias and Mr Deva Corea



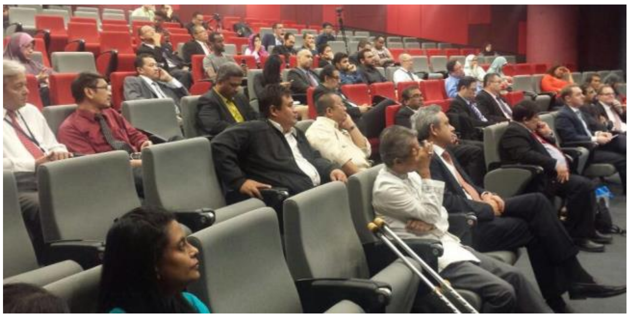
From Left to Right: Prof Peter Chandler, AO, Prof Michael Tse , Dr Chintan Bharwada, COO of SBS, , Prof. Janek Ratnatunga, CEO of SBS, Mr Deva Corea, Ms Karen Dias, Mr David Cartney, (Chairman); Apology: Mr William Dix, AO



At first Board Meeting: From Left to Right: Dr. Chris D'Souza, CFO of SBS; Dr Chintan Bharwada, COO of SBS, Prof. Janek Ratnatunga, CEO of SBS, Mr Deva Corea, Ms Karen Dias, Mr David Cartney, (Chairman); Prof Peter Chandler, AO, Prof Michael Tse.

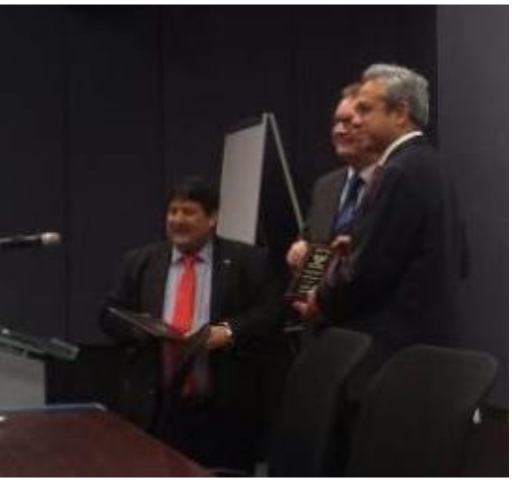
Regional Office and Branch News

Malaysia Hall of Fame Celebrations

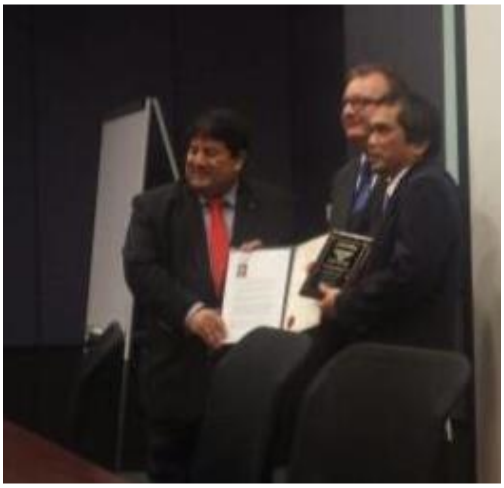


On 18th January 2018, Prof Brendan O'Connell (ICMA President) and Prof Janek Ratnatunga (ICMA CEO) did the last of 2017 *Global Accounting and Management Accounting Hall of Fame* induction ceremonies at the *Asia Pacific University of Technology & Innovation (APU),* in Kuala Lumpur, Malaysia. There were approximately 100 attendees.

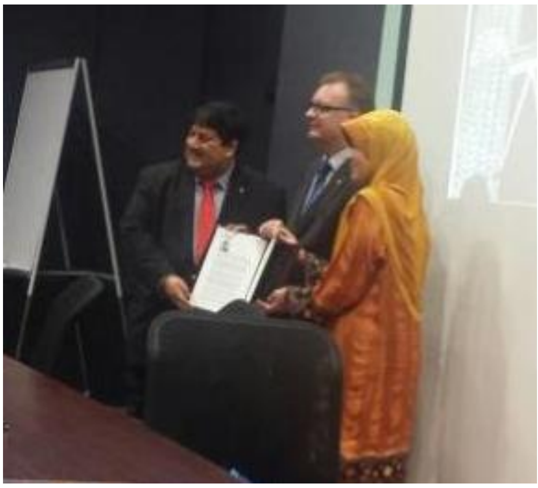
At this function, *Datuk Bazlan Osman*, Executive Director and Deputy Group Chief Executive Officer of the Telekom Malaysia Group (TM Group) and *Prof Datuk Dr Syed Othman Al-Habshi*, Professor of Islamic Economics & Econometrics and Head of Takaful Faculty at INCEIF, the Global University of Islamic Finance were inducted to the *Global Management Accounting Hall of Fame*; and *Dr. Yacob Bin Mustafa*, Deputy Accountant General Malaysia (Corporate) at the Accountant General's Department, Ministry of Finance, Malaysia and *Prof Dato' Hasnah Haron*, Professor and Dean of the Institute Postgraduate Studies at the Universiti Malaysia Pahang, Malaysia were inducted to the *Global Accounting Hall of Fame*.



Datuk Bazlan Osman being inducted to the Global Management Accounting Hall of Fame. Also in the picture are Prof. Janek Ratnatunga, ICMA CEO, and Prof Brendan O'Connell, ICMA President.



Dr. Yacob Bin Mustafa being inducted to the Global Accounting Hall of Fame. Also in the picture are Prof. Janek Ratnatunga, ICMA CEO, and Prof Brendan O'Connell, ICMA President.



Prof Dato' Hasnah Haron being inducted to the Global Accounting Hall of Fame. Also in the picture are Prof. Janek Ratnatunga, ICMA CEO, and Prof Brendan O'Connell, ICMA President.

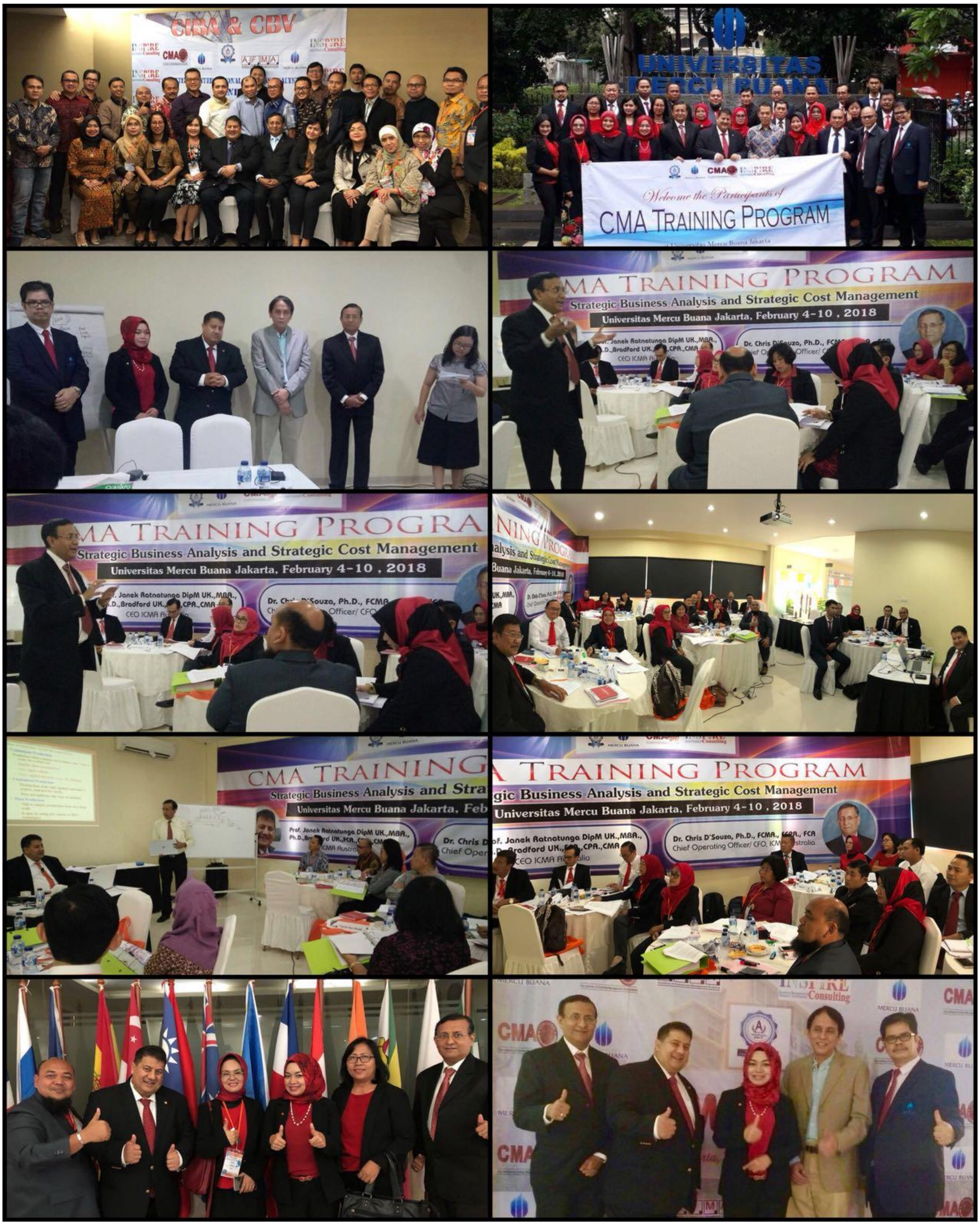
The Chief Guest was Mr Daniel Havas, Minister Counsellor (Commercial) and Senior Trade & Investment Commissioner, Malaysia and Brunei, Australian Trade and Investment Commission of the Australian Government, who spoke of the special Malaysia-Australia relationships, especially in education. Formal presentations were also made by Prof Brendan O'Connell, the President of ICMA and Professor of Accounting, RMIT University, who spoke on *"Anti-Money Laundering Legislations and CFO Responsibilities"* and Professor Janek Ratnatunga, the CEO of ICMA who spoke on the topic, *"Sustainable Cost Accounting: Air, Water and Food"*.

Also present at the function were Professor Allen Wong, Regional Director for Hong Kong and Greater China and Dr Ruwan Hulugalle, Regional Director for the Mekong Region.

Indonesia Conducts CMA and Certified International Business Analyst (CIBA) and Certified Business Valuer (CBV) Programs

The second CMA intensive program organised by Dr Ana Sopanah of *Inspire Consulting*, was conducted at *Mercu Buana University*, in Jakarta, Indonesia on Feb 4-10 2018. The program was facilitated by Professor Janek Ratnatunga, the CEO of ICMA Australia and Dr Chris D'Souza, ICMA COO/CFO.

CPD Training was also conducted for ICMA members. They undertook the Certified International Business Analyst (CIBA) and Certified Business Valuer (CBV) programs provided by the Academy of Finance and Management Australia (AFMA). Dr Chris D'Souza, ICMA COO/CFO also conducted a seminar for International Business Students at Mercu Buana University.



Top Sri Lankan CEOs and CFOs Participate in the CMA Program

During the period February 17-25, 2018, the 28th CMA Intensive program was conducted by Professor Janek Ratnatunga at the Galadari Hotel in Colombo Sri Lanka. The program is offered exclusively by the *Academy of Finance*, in Sri Lanka. Over 65 senior managers including CEOs and CFOs from all sectors of the Sri Lankan economy attended this program held over 7-days.

Professor Janek Ratnatunga, CEO of ICMA Australia conducted the seminars. These seminars are reputed to not only impart 'World-Class' knowledge; but also enable participants to apply this knowledge immediately in practice.

Some of the participants with Professor Janek Ratnatunga at the 7-days of the intensive CMA program in Sri Lanka.

Students celebrating with Professor Janek Ratnatunga after the gruelling 7-days of the intensive CMA program.

CMA Events Calendar

- March 9-11, and May 12-15, 2018: 5th CMA Preparatory Program, Ruwan Hulugalle and Company, Phnom Penh, Cambodia.
- April 21-28, 2018: 23rd CMA Preparatory Program, SMART Education Group, Dubai, UAE.
- July 15-21, 2018, 3rd CMA Intensive Program at Mercu Buana University Jakarta, Indonesia, organised by Inspire Consulting.
- September 22-24 and October 20-23, 2018: 6th CMA Preparatory Program, Ruwan Hulugalle and Company, Phnom Penh, Cambodia.
- October 1-7, 2018: (Proposed) CMA Train-the-Trainer Program, ManAcc Consultants, Auckland, New Zealand.
- October 13-19, 2018: CMA Preparatory Program, IPMI Business School, Jakarta, Indonesia.
- October 19th, 2018: Accounting Hall of Fame & Management Accounting Hall of Fame Awards 2017, Gala Dinner, Phnom Penh, Cambodia.

Private Providers

Wharton Institute of Technology and Science (WITS), Australia

Academy of Finance, Sri Lanka

IPMI (Indonesian Institute for Management Development), Indonesia

Multimedia College (MMC), Malaysia

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

Institute of Finance and Management PNG

TOP Academy, Malaysia

Segal Training Institute, Iran

Ruwan Hulugalle & Company, Cambodia

Bhandal (Pvt) Ltd, Pakistan

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