Next issue of On Target Online, February 2012

ON TARGET

intelligent innovative invaluable

e-Mag of the Institute of Certified Management Accountants

On Target Online - November / December 2011 - Issue 5

When the Fish Stinks from the Head

by Leon Duval
CA, CMA, MBus(Acc) and ICMA CEO

Large corporate collapses and scandals capture media headlines for a short period and are inevitably followed by regulatory backlash as governments, professional associations and other injured stakeholders look for scapegoats in yet another fruitless chase to rein in corporate misbehaviour.

Media coverage of the phone hacking scandal that ended the *News of The World* after 68 years continues, and the scramble to close perceived holes in the regulatory and legal net is yet to gather traction.

As distinct from many corporate collapses, the NOTW case not only opens up important legal principles about personal privacy and individual rights, it also forces us to confront that ubiquitous elephant lurking within every organisation; when is the end not justified by the means?

An argument for the NOTW actions could be made from a corporate strategist's perspective as follows. The editor allegedly either approved or turned a blind eye to the nefarious actions of some reporters who used dubious means to tap into information sources through the potential of new technology. These activities delivered a number of 'scoops' that increased circulation creating additional advertising revenue and kudos for the paper. Additional revenue translated into increased value for contented shareholders and the fulfilment of corporate mission! The strategist might well consider individual privacy issues raised by the strategy but remind themselves that newspapers have been splashing private lives and personal secrets all over their front pages for decades.

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Inaugural ICMA Management Accounting Conference

DATES	21- 22 February 2012
VENUE	Novotel Canberra, ACT
CPD points	15
REGISTRATION	Opens December Limited to 150 delegates, first come first served
PROGRAM DETAILS	See Institute News this issue. Updated details will be emailed shortly as a supplement to *OnTarget Online* and published on the website

DIARISE NOW AND BE THERE!!!

Annual General Meeting

Members are advised that the Annual General Meeting of the Institute of Certified Management Accountants will be held at 6.30pm Monday 12 December 2011 at Unit 5, 20 Duerdin Street Clayton North Victoria.

By order of the Council

Hans Ferdinands
Honorary Secretary

CMA

Run a Better Business

[the **News of the World** case goes to the ***heart*** of risk management and corporate *governance*]

The ethicist, however, argues that recording the private conversations of vulnerable, troubled individuals without their knowledge or consent is unacceptable. The issue is not about the finer points of privacy law, therefore. It represents a reprehensible act in which accepted ethical borders were cast aside by unfettered economic ambition. The implied social contract between big business leaders and the society was breached, and as a consequence, that enterprise must be stripped of its right to continue trading.

If we step back and consider how to define the ethical boundaries between actions society should condone and those it will not, it becomes obvious that it is not an easily derived concept. The dominant cultural forces, differing tolerance levels for individual freedoms, the nature of authority, history, and economic and environmental conditions contribute to make ethical boundaries a relative not an absolute concept.

A classic example is that of the Australian Wheat Board. In order to secure wheat contracts, the AWB team responsible for negotiating with Middle Eastern customers entered into what were considered by many as shady, unethical and morally reprehensible deals, unacceptable by prevailing Australian norms. In the localities where the transactions were negotiated, however, the inducements to enter into the arrangements probably did not even raise an eyebrow! It is not too difficult to mount an argument that faced with the challenges of competing in environments with different ethical norms to those of the home country, adopting the maxim 'when in Rome do as the Romans do' is a totally legitimate response.

The NOTW case not only opens up the ethics box it goes to the heart of risk management and corporate governance. In *Charter* magazine's November 2011 issue (page 14) Marion Fahrer discusses the NOTW case.

Fahrer saw the issues as being related to board oversight, risk management and corporate culture. She also raised the conflicts created by a concentration of ownership and the weakness in governance caused by an inadequate proportion of independent board directors and referred to the difficulties of exercising effective control over subsidiaries with their own executive management and local boards.

But it does not really matter from which perspective you view the problem, the buck must stop at the very top of the pyramid and if the head is rotten and stinks, so will the rest of the fish. The Parliamentarians grilling the Murdochs were totally dismissive of the victim card played, namely that top

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management was unaware of the practices within NOTW and relied on the assurances of others.

Fahrer states very clearly the ultimate issue faced by all organisations: how can they “ensure appropriate board oversight of risks and develop a culture of ethics to protect them from potential corporate misbehaviour and value destruction”.

Clearly, unless an organisation’s top management tier operates under a defined and understood ethical and moral compass that is not only communicated but embedded into organisational culture, ethical risk cannot be managed.

The first task in shaping an ethical culture must be to define and document the borders that will encircle the actions of managers and employees, a zero tolerance boundary which if breached will bring serious consequences. The difficulty is setting the Zero Tolerance Line.

A medical ethics analogy illustrates the complexities inherent in this task. Medical ethicists are currently grappling with defining a Zero Tolerance Line (ZTL) as they struggle to determine the criteria to accept when establishing the exact point of death. The implications are enormous because only on death can organs be harvested to save another life.

In organisational terms the definition of a ZTL thankfully does not involve life or death, but does require a determination of the point at which the benefit accruing to the organisation resulting from an action taken by its management, employees or wider stakeholders for that matter, erodes accepted norms in the society within which it is operating.

When determining the ZTL for any organisation it is important to start from a reference point representing a state of absolute perfection. Assume that we label that state in human ethical behaviour as ’The Immaculate Perfection’ or as a concept represented by the IMP Line.

It is universally accepted that humans are not perfect and cannot attain a level of absolute perfection. Societies moderate expectations of human behaviour and, therefore, we can ’normalise’ and adjust for a Normalised IMP (NIMP) Line. The gap between absolute and normalised perfection we could call the Human Imperfection Factor or the HIF. These concepts are illustrated in a model for a theoretical ethical and moral organisational compass shown in Diagram 1. below.

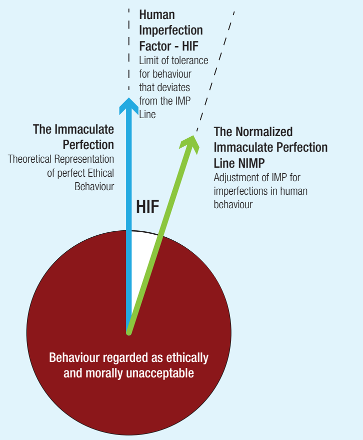

Diagram 1. The Theoretical Ethical & Moral Compass

Unless an organisation’s **management** operates under a defined and understood *moral* compass, ethical ***risk*** cannot be managed

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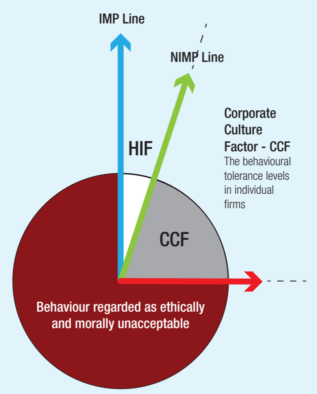

Diagram 2.
Organizational Ethics & Moral Compass

This tendency to normalise ethical behaviour away from absolutes is a critical issue and its impact must be factored into the process of defining and controlling the ethical criteria used to shape internal culture. Kathryn Marshall, Business Development Manager for Navitas Workplace Solutions, says that organisations tend to set their ethical and moral compass not according to a representation of perfection but by comparison against existing internal practices. These may already be borderline in terms of the outer limits for community acceptance and widely divergent from the direction in which even the NIMP is pointing. When the next shift occurs after the envelope is inevitably pushed that little bit further, the organisation moves so far over the line that it immediately confronts a community backlash, a plausible explanation of what occurred in the NOTW case.

When setting the direction for the ethical and moral Compass of the organisation, it is, therefore, critical to benchmark not against where practices are currently situated but against a model representing at minimum the NIMP Line.

The theoretical model in Diagram 1. is capable of further extension because practical necessity and commercial reality, particularly within the context of the global business environment, force organisations to move the compass point away from the NIMP Line. This shift allows the organisation to build the harsh commercial realities of the global business environment into its own ethical and moral compass. If it does not do this (sadly for those who would like to see a world built on perfection) the organisation will probably be driven out of its environment by competitors, most of whom will be living by other rules.

The point to which the compass is moved becomes a critical issue because moving it too far will potentially impact the sustainability of the organisation, as was the case at the News of The World. It is also the junction at which the criteria used to define the risk model intersect with those used to define the organisation's ethical and moral compass.

These refinements allow for a practical representation of how to derive an organisational ZTL and are illustrated in Diagram 2. (left).

The process required to derive the definitions, and to communicate and embed them into organisational culture are beyond the scope of this article. The mandatory control process required to monitor the activities within the organisation both from the negative policing perspective and a positive aspect supporting the moulding of an ethical organisational culture are important to consider, however, because they fall within the management accounting role.

A suggested control model is shown in Diagram 3. below. It illustrates the role of the management accountant as being integral to the total oversight process. He or she possesses the skill and knowledge to translate the defined ethical criteria into critical performance variables and subsequently to manage the monitoring and reporting process. A key component shown by the model is the need to constantly monitor evolving internal and external factors that may impact on the organisation's ethical and moral compass. This process allows shifts in criteria to be factored in if required. While not his or her main role in the control process, the management accountant should also have access to the information streams that could eventually impact on the organisation's ethical and moral compass.

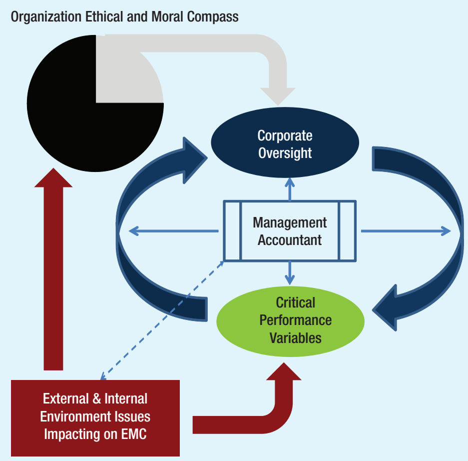

Diagram 3. Ethical and Moral Compass Control Model

The subject of ethics in organisations is crucial to the well being and health of the societies in which we work, play and conduct altruistic activities. The management accountant has an important role as an independent and honest broker assisting society to protect the lifestyles and freedoms established and fought for over many centuries.

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Inaugural ICMA Conference – Tradition in the Making

The place to be for ICMA members next February 20 to 21 is at the ICMA's inaugural annual conference at the 4.5 star Novotel Hotel in Canberra, Australia.

Based around issues of risk, leadership and strategy and their place for management accountants in the decision making process, the conference is an excellent opportunity to meet and exchange ideas with fellow members and for international members to share their local issues. Members participating in this ground breaking event will also benefit from a substantial 15 Continuing Professional Development points, i.e., half the annual requirement.

Conference highlights include the keynote address by Admiral Christopher Barrie AC, patron of the Australian Risk Policy Institute and former Chief of the Defence Force. A leading Australian politician (as yet to be confirmed) will address the gala dinner and NAVITAS will make an exciting announcement regarding its future involvement with the ICMA.

But you'll have to be quick. Registration opens in December and numbers are limited to 150 delegates on a first come, first serve basis. Members will be advised of details by email or can register via the website www.cmawebline.org

While the first conference is in Australia's Capital Territory, it is planned for this annual event to rotate among our world-wide branches.

[the **conference** is an excellent opportunity to meet and ***exchange*** ideas with fellow members and for international members to *share* their local issues]

This email was received after OnTarget Online Issue 4 was distributed in September.

Dear Editor,

After (the) May Journal this (is) the second one just received. Earlier we used to receive journal by post that got stopped due to cost cutting exercise or so. Now web based journals are sent once in a blue moon! ICMA is getting closed or what ? Please confirm.

Ujjal Kumar Mukherjee

Group Business Development Manager
Building 881, Road 115, Block 601, North Sitra Industrial Area Kingdom of Bahrain

As CEO I sent the following response.

Dear Mr Mukherjee, thank you for your recent email which has been passed to me for a response.

First in answer to your question, the ICMA is not "getting closed" at all. The previous issue of *OnTarget Online* shows that we are very much alive and spreading our wings. I am not sure why you have assumed that this is only the second issue for the year. It is actually the fourth for 2011 and published on schedule. With the greatest respect your comment that the publication is "sent once in a blue moon" is totally incorrect and the facts support that. Issue1 was published in February, Issue 2 in April, Issue 3 came out early July and Issue Four in September. The editorial program is for five publications per annum of the e-Mag and one hard copy year book, scheduled for publication and distribution in December.

With regard to the e-Mag being a cost cutting exercise, that is not correct. Our strategy for moving to an online publication was driven by the need to deliver our members a proprietary, high quality, informative management accounting publication that included Institute news and views. It replaced a hard copy newsletter and a magazine that was not by any standard a specialised management accounting journal. The resulting savings have merely been redirected to cover the costs of producing our own publication. These are for a professional editor, a desktop publisher and the distribution infrastructure required.

Our decision to utilise the potential of the new publishing medium is not by any means unique. More and more professional organisations are now switching to internet delivery. I also point out that the emerging opportunities offered by tablet computers is adding to that momentum. As an organisation we are committed to embracing technology changes just as our profession has done since it was recognised as a specialist body of knowledge so many years ago.

I hope this brief email assists your understanding of the objectives driving the change to an internet based distribution medium.

Thank you once more for your interest in the work of the ICMA.

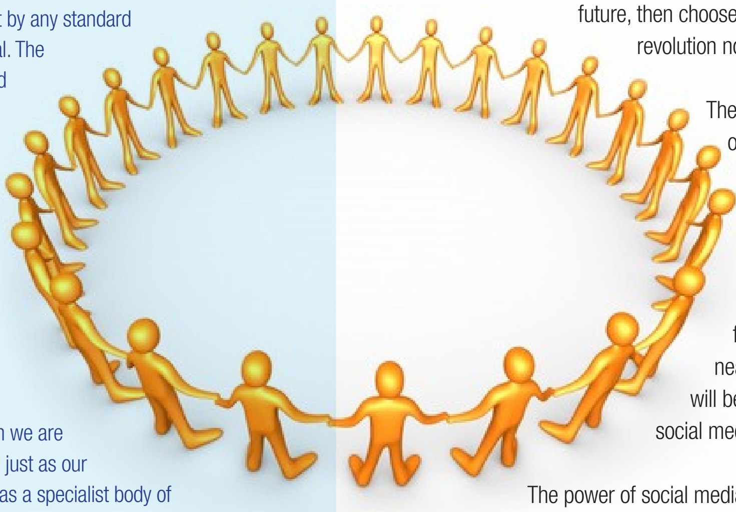
Hyperconnected Management Accounting – Exploiting the Connectivity Potential of Social Media

Members will no doubt have differing opinions about council's decision to replace a hard copy news letter and CFO magazine with our own electronically delivered publication. In September, one member sent us an email expressing some pretty strong opinions on the subject, published here together with our detailed response.

We welcome the disparity of views and are eager to stimulate a debate on the topic. In support of the direction ICMA elected to follow, I present an outline of our evolving strategy regarding not only electronic publishing, but also the various social media platforms that have become indispensable to the ever growing cyber community.

ICMA strategy must be to exploit the potential of the emerging social media platforms and the evolving hardware devices, both for member communication and to forge a hyperconnected management accounting community.

Our professional mission statements are about providing management with leading strategic indicators that facilitate control and the formulation of future vision. We distinguish ourselves from the financial accounting profession forced to focus on past performance because of the restrictions imposed by legal and regulatory frameworks. How can ICMA, an organisation committed to fostering and developing the future, then choose to ignore the connectivity revolution now gathering pace globally?



The far reaching consequences of this connectivity revolution are only really appreciated by examining the statistics. *Facebook* alone claims to have already more than 750 million users globally, and future projections are that nearly 2 billion human beings will be connected via the various social media platforms by 2015.

The power of social media as a mechanism for mobilising large groups instantaneously was graphically demonstrated recently both negatively and positively. I am, of course, referring to the relatively peaceful power transition in Egypt on the one hand, and the ugly scenes on the other, when the streets of London and other parts of England erupted in flames as the messages hitting hand-held devices

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urged their owners to rush from one looting frenzy to another. The largest population group in the hyperconnected community is the generation that has grown up with the technology, but there are also significant numbers in the 50-plus band. Clearly, any organisation or business that pretends this electronically connected world has no impact on future viability or sustainability is not only burying its head in the sand. There is a strong chance for it ending up on the scrap heap of history.

How does this translate into future strategy for the ICMA?

1. We will be continuing publication of *OnTarget Online* using the efficiency of an electronic distribution medium.
2. In order to expand our reach into the management accounting community, early next calendar year we will increase *OnTarget Online* distribution beyond current membership to attract new members into our ranks.
3. A working group will be appointed early in 2012 to assess how the social media platforms and electronic delivery systems can be utilised for the purposes of:
    a. Increasing member connectivity
    b. Facilitating the administration and governance of ICMA
    c. Increasing awareness of the ICMA brand
    d. Fostering the development of management accounting as a specialised profession, and;
    e. Facilitating lifetime learning and professional development.

The working group will include ICMA members and external experts and members outside the working group will have an opportunity to provide their input.

Finally, it is clear that one of the challenges for any organisation is to attract emerging generations into its membership. The power of the new media is there for the taking allowing the message to be communicated directly to generations X and Y and, before long, Z.

As this is the last *On Target Online* for the year, I extend my best wishes in closing to all those members celebrating the December festive season and the 2012 New Year,

Leon Duval

CEO, ICMA

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Management accountants can play a **significant** role by providing quantitative *information* on the cost implications of various ***alternative*** courses of action

Cost Concepts, Categories and Flows

by John Donald, Lecturer, School of Accounting, Economics and Finance, Deakin University

Many management decisions are based on cost information, so an understanding of the various types of costs and how they can be used in decision making is an important skill needed by management accountants.

Different costs will be used for different types of decisions, and a management accountant must be able to identify which costs are relevant (i.e., useful) in a particular decision making situation.

Management accountants can play a significant role by providing quantitative information on the cost implications of various alternative courses of action. In this task, the focus is on future rather than historical costs. For example, managers require forecast cost information when deciding whether or not to expand or reduce production, whether to purchase certain parts or manufacture them and whether to lease additional buildings and machinery or buy them. Managers also have to make pricing decisions which will ensure that products are sold at a profit and are competitive in the market place. A widely used pricing technique is known as *cost plus pricing* whereby a percentage mark up for profit is added to a product's unit cost to give its selling price. If unit costs are incorrectly calculated, prices will be set too high or too low, and products may not sell in sufficient volumes because they have been overpriced, or they could be sold at a loss due to under pricing. In either case, the firm will suffer a profit loss.

Costs are important pieces of information, but what exactly is a *cost*? This term has been broadly defined as a 'resource sacrificed or forgone to achieve a specific objective' (Horngren et al., 2011, p. 31). In other words, a cost is the value of what we have to give up in order to get something or to do something. Costs are usually expressed as the monetary amounts paid to obtain goods and services or to carry out a business related activity. These cash costs are sometimes called *outlay costs*. However, there are other costs, referred to as *opportunity costs*, which do not involve a payment but instead represent a benefit given up when one alternative is chosen instead of another. For example, when choosing whether to make product A or product B, the full cost of making and selling product A should include the profit that could have been earned by making and selling product B (and vice versa).

Is a *cost* the same thing as an *expense*? Strictly speaking, no, although in practice these two terms are often regarded as being interchangeable. A cost is the amount paid to acquire or produce an asset i.e., a bundle of future benefits which may be used up or consumed over several accounting periods. Assets are shown at their historical costs on the balance sheet. An expense is an amount that represents benefits which have been, or will be, consumed in the current accounting period. When you buy a new car you acquire an asset and incur a cost. When you fill the tank of your new car with petrol you incur an expense. As the benefits from a non-current (long term) asset like a motor vehicle are consumed, the cost of the asset is converted into depreciation expense period by period and shown on the income statement.

Costs are linked to particular things called *cost objects*, and these can include anything for which a separate measurement of costs is desired. A cost object may be a product, a service, a department, an activity like research and development, or even a customer. When we assign costs to cost objects, we can classify the costs as either *direct* or *indirect*. A cost that is easily traced to individual cost objects is a *direct cost*. For example, the cost of the imported teak timber used by a furniture maker to create a special boardroom table for a corporate customer would be a *direct material cost* of the table. Likewise, the wages paid to the carpenters for the time that they spent working on the table (plus any labour on-costs like superannuation) would be the *direct labour cost* of the table. Direct labour is sometimes called *touch labour* because the employees concerned have a hands on relationship with the product or service. Their work times for different products can be accurately assigned via employee time sheets and then costed using individual pay rates.

There are usually some costs which benefit more than one cost object, so that tracing them to individual cost objects cannot be done in an economically feasible (cost effective) way. These untraceable costs are classified as *indirect costs*. A furniture maker may use inexpensive materials such as fasteners (screws and nails) and adhesives

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in all its products, and it would not be worthwhile attempting to trace their costs to specific products. Instead, these things are treated as *indirect materials*. Similarly, it would be difficult or impossible to accurately assign to products some labour costs like the wages paid to maintenance staff, production supervisors, people who work in the factory office or canteen, and the forklift truck drivers who move materials around the factory. These labour costs are classified as *indirect labour*. In a manufacturing organisation, indirect manufacturing costs are grouped together under the heading of *manufacturing overhead*.

As well as indirect materials and indirect labour, manufacturing overhead would include a range of items sometimes called *indirect expenses*. These could include the insurance premiums on factory buildings and their contents, utility expenses (for electricity, gas and water), council rates, equipment repairs and maintenance, and other asset related expenses like equipment depreciation. Production equipment is typically designed so that it can be used to make multiple products, so the costs of owning and operating machinery can be difficult to trace to individual products. In a later discussion we will consider how manufacturing overhead costs are applied to products using predetermined overhead rates.

The important thing to remember when deciding whether a cost is direct or indirect, is that a cost is either direct or indirect relative to a specific cost object. A particular cost may be direct with respect to one cost object, but indirect with respect to another. For example, factory rent is a direct cost of the factory but an indirect cost of the products made within the factory.

The costs that are incurred in the production of goods for sale all come under the heading of *manufacturing costs* (or *product costs*) and these comprise direct materials, direct labour and manufacturing overhead. Occasionally, *direct expenses* are also included. The cost of hiring a machine for producing a specific product is an example of a direct expense. The name often given to the total of all the direct manufacturing costs is *prime cost*. Hence:

Total manufacturing cost = prime cost + manufacturing overhead

Non-manufacturing expenses (sometimes referred to as *period expenses*) are typically divided into selling, administrative and finance expenses. Selling expenses relate to marketing and distributing products and also providing after sales services to customers. Administrative expenses are incurred in managing the whole organisation and are often referred to as *head office expenses*. Finance expenses relate to the interest payable on borrowed funds. All non-manufacturing expenses are reported on the income statement for the period in which they were incurred (hence the name 'period expenses').

Manufacturing costs are recorded initially in a series of asset accounts: raw materials inventory, work in process inventory and finished goods inventory. For this reason, manufacturing costs are sometimes referred to as *inventoriable costs*. As products pass through the production process, there is a parallel flow of costs through the three inventory accounts. When finished goods are finally sold, the manufacturing costs that have been assigned to these goods are expensed on the income statement as cost of goods sold. To calculate the *cost of goods sold* for a manufacturer requires four distinct steps, and the following example based on some assumed numbers for 2010 illustrates this costing process.

Step 1: Determine the *cost of direct materials used* in production.

Note that materials like detergents and lubricants, which do not become part of a finished product, are indirect materials and their purchase costs are recorded in a separate inventory account which may be called 'factory supplies' (a manufacturing overhead item).

Raw materials inventory, January 1, 2010	$50
Add raw materials purchased during 2010	$20
Cost of raw materials available for use	$70
Less RM inventory, December 31, 2010	$15
Cost of direct materials used	$55

Step 2: Calculate the *total manufacturing cost* for the period.

Direct materials used (from step 1)	$55
Direct labour cost	$70
Manufacturing overhead	$60
Total manufacturing cost	$185

Step 3: Determine the *cost of goods manufactured* (i.e., completed) during the period.

Work in process inventory, January 1, 2010	$15
Total manufacturing cost (from step 2)	$185
Total cost of work in process	$200
Less WIP inventory, December 31, 2010	$25
Cost of goods manufactured	$175

Step 4: Calculate the *cost of goods sold*.

Finished goods inventory, January 1, 2010	$45
Cost of goods manufactured (from step 3)	$175
Total cost of goods available for sale	$220
Less finished goods inventory December 31, 2010	$30
Cost of goods sold	$190

The calculations for the cost of goods manufactured are often presented in a separate schedule, while the calculation of cost of goods sold is usually shown on the income statement itself. This statement will also give details of the period's non-manufacturing expenses and the amount of operating income before tax and after tax.

Reference: Horngren, C.T., Wynder, M., Macguire, W., Tan, R., Datar, S.M., Foster, G., Rajan, M.V. and Ittner, C. (2011) *Cost Accounting: a managerial emphasis* (1st Australian edition), Frenchs Forest NSW: Pearson Australia.

The Concept of Risk Management in the 21st Century Business Environment, Part Two

The Process of Risk Management Utilising AS/NZS/ISO31000:2009 as the Starting Point

by Michael Vincent, ICMA Vice-President

[Our **responsibility** as management accountants is to make *effective* decisions within the parameters of the information ***available*** at the time]

When making business decisions we must know why and how the decision is being made and what the potential range of outcomes could be. We all hope our decisions are correct and timely, but a range of outcomes from success to failure inevitably results from any decision. These outcomes are based on the quality of the information analysed and the decision making discipline of the individual or group.

Our responsibility as management accountants and advisors to business is to make effective decisions within the parameters of the information that is available at the time. It is not an option to wait for perfect information as this rarely happens, and by waiting we might miss the opportunity that the decision poses.

Any business decision will entail an exposure to risk. The exposure can be an upside or positive to the business, e.g., a new product or initiative, or indeed a downside or negative, e.g., a funding decision or a range of unintended consequences. Importantly, any decision will have an upside and a downside attached to it. If we examine the generally accepted standard of risk management (ISO31000:2009 and its member versions) it is apparent that it is a clear thinking pathway enabling a disciplined decision based on available facts and that the decision maker is aware of the upside and downside of the decision.

Standard ISO31000:2009 is the International Standards Organisation approved guideline for the implementation of a risk process within a business and is available for purchase from that organisation's website. An examination of the document will show that it is not prescriptive but rather advisory. Every business has different needs and different policies and importantly, different individuals who are required to make decisions, therefore, a prescriptive document would not work and indeed would be a greater risk to the organisation than having no process. The process is based on the following principles:

1. Create Value – the purpose of any process is to add value and create the environment for success and growth.

2. Integral part of business process – a successful business will have a range of processes that allow it to achieve its objectives; the risk process is no different. A key point here is that decisions based on risk are essential for a business to maintain resilience and thus enhance survivability.

3. Part of decision making – unfortunately, risk is often considered after an event has occurred and is viewed as a negative or threat. It is imperative that the risks associated with a given range of decisions are considered prior to the commitment rather than as a consequence.

4. Explicitly addresses uncertainty – all businesses face uncertainty, we just don't like to acknowledge this fact of life. The risk process forces us to consider tomorrow and its impact on our decision making processes.

5. Systematic, structured and timely – a disciplined and constructive enterprise-wide approach to the management of risk that is accepted by the workforce as a value add is essential for success. Structure is the key to acceptance.

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6. Based on best available information – it must be understood that all business decisions are based on uncertainty as we only know the information that is available to us at the time of the decision.

7. Tailored – the process as outlined in the standard must be interpreted by the business and applied in its best interest.

8. Takes human and cultural factors into account – without the human there is no risk, humans create the risk environment and humans alone via a disciplined process can create resilience to any impact either internal or external.

9. Transparent and inclusive – all parts of the business must be included and their needs respected.

10. Dynamic, iterative and responsive to change – any process that is not self-learning and continuous is of little use in the current environment; risk has failed in the past because the modelling was based on static information that was not allowed to evolve.

11. Facilitates continual improvement and enhancement of the organisation – an iterative process ensures that the job is never done and the organisational learning is directed back for future decision making.

We now have a principles based approach to the management of risk within our organisation, how then do we focus the principles into decision making? That is the fundamental issue that faces boards of directors once they have accepted the above list. Standard ISO31000 gives us an iterative framework that allows for transparency in decision making and a pathway for board acceptance.

Board acceptance is the hub of the problem. The board must own the risk policy and must lend its support to implement and sustain the risk process. This is achieved via an understanding of ISO31000 and its requirements for acceptance. These are:

1. Mandate and commitment – the board must mandate its need for risk to be identified and managed and must ensure sufficient resources are allocated to achieve the objectives as set. Here is a huge test for a board in that any risk process must be viable, sustainable and importantly, affordable.

2. Design of the framework for the management of risk – using the standard as an advisory document the onus is on the firm to design a purpose built system that embraces the principles listed above. The board will not design but will accept the design.

3. Implementation of risk management – the tone from the top is imperative as the initial stages of any risk management process are usually met with suspicion by the remainder of the firm.

4. Monitor and review – the board must monitor the working of the system and have an audit process in place to validate its worth.

5. Continual improvement – the organisational self-learning is of a continuous and iterative nature.

Lastly, the actual process that is implemented within the organisation should look something like this.

Source AS/NZS/ISO31000:2009

In the next issue of *On Target Online* we will look at the need for policy before process and how the development of a policy ensures the risk process will be a value add designed for business survival and resilience.

In this issue we celebrate **Robert Stewart**, the member responsible for putting together and publishing *On Target* for the decade preceding its recent transformation to an e-Mag.

Q. What is your role and history as a management accountant and ICMA member?

A. In the late 80s I was heavily involved in costing and modelling rural enterprises including forestry, horticulture and agriculture. We utilised 'visicalc', 'mathplan' and 'basic' in those days! In about 1990, Anil Weereratne introduced me to a new and 'sophisticated' modelling tool called EasyABC, the precursor to Oros; I was hooked. By the late 90s our group had moved on from modelling farms to mainstream business including banking, IT, and resources. Janek Ratnatunga and Leon Duval paid us a visit about this time to gauge our interest in the formation of the ICMA. The what? I attended one of the early courses and became a foundation member.

Q. What were On Target's origins? When and why was it was first produced, and what did it set out to achieve?

A. In 2001 On Target was seen as the primary means of communication with ICMA members containing pithy stories, latest news and marketing and generally flying the ICMA flag. It predated the website and in the early years download speeds were so slow as to preclude it being sent by email.

Q. How did you go about that and what was the process?

A. Coincidentally at this time I was also an executive director of a publishing firm attempting to put theory into practice. Our firm was one of the first to move from pasting-up pages with glue to true desktop publishing so I was familiar with the desktop technology. I must have, rashly perhaps, put my hand up to help publish the ICMA magazine, an offer gratefully accepted. Janek Ratnatunga was editor-in-chief. He determined content and was the conduit for stories from various contributors. My first task was to settle on a layout, a word count and build a template. Janek took the statistics on board, wrote and collected enough words to fill the various sections. My role was editor-as-necessary and desktop publisher.

Q. How frequent was it and how long did it take you to produce?

A. On Target seemed a lot more frequent than it probably was, but roughly, bi-monthly, probably because of Janek's timing which was always impeccable and at the last possible minute. The On Target stories always appeared in my in-file when toil was at its hectic best. Production time varied quite a bit as I recollect – I certainly burnt the midnight oil on more than one occasion to my wife's chagrin.

Q. Your views on the magazine's current format?

A. I like the current format though the current text font is not the easiest to read on a computer screen.

Q. Your views on what might be possible in the future?

A. The immediacy of the internet is having a profound effect on magazine content and layout. There is burgeoning interest in internet blogs, maps, timetables, phone numbers, prices etc. The latest information is available in an instant if you know where to look. This immediacy has completely changed the way I think about magazines, be they in print or electronic media. Whilst I continue to love the magazine experience, I have to say that now most of my information needs are solely provided by electronic media; media that I may store for future reference. It's no longer necessary to burrow through a magazine for regular statistics when there is an app that can find the information for you. But it is clear that some information remains best suited to the magazine format. Now I'm not at all sure how this will pan out, but I am sure there will be rich rewards for those magazine publishers that get the information mix, 'just right'.

Q. Have you any views specific to improving or evolving *On Target Online*?

A. Perhaps *On Target* will evolve to feature aspects of particular interest to the profession: research, war stories or politics, the precursor to open discussion on a website blog. Ongoing 'threads' may turn into member 'interest groups'. *On Target* will lose the regular communications and letters to cmawebline where members can post their thoughts with immediate interactivity. cmawebline must surely become the primary focal point for members in the not too distant future.

In each issue *On Target Online* turns the spotlight on someone of interest and achievement in our ranks. All branches are invited to nominate members they consider to be outstanding management accountants who have contributed both to their profession and the wider community. Nominations should be accompanied by a brief outline of why the nomination is significant and contact details for the nominee. Please address contributions to the editor ontarget@cmawebline.org

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