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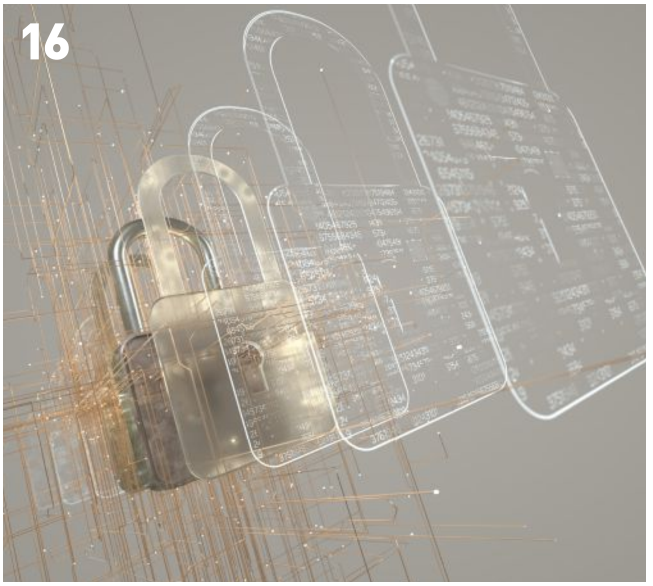

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Multi-capital transformation

'Our success will depend on how well we can collaborate as well as analyse.'

The management accounting profession, along with the wider business world, is being redefined by the work we are doing in the sustainability and ESG space. We have always been, and will remain, focused on adding value to organisations. What has changed is that now we understand that value incorporates more than just financial capital.

Organisations are taking a multi-capital approach, in which the complex interplay between all the Integrated Reporting capitals — financial and manufactured, as well as intellectual, human, social and relationship, and natural — will transform business models to create the sustainable organisations of the future. Our role in this transformation will be to maximise value by driving the effective and efficient allocation and deployment of all capitals, including financial, and other resources and relationships.

This will mean the finance function itself will change.

There are four major shifts that management accountants will need to make for this transformation to be successful. And they all cut across traditional boundaries:

1. We will engage with our organisations' business models on a much deeper level. Beyond the important traditional areas of cost and revenue, we also need to look at other dimensions, including purpose, the customer value proposition, and organisational culture. Our analysis will have a greater impact on how strategy is developed and managed in a multi-capital environment.
2. We need to develop a greater understanding of the importance of intellectual, human, social and relationship, and natural capitals. There will be a continuing shift of focus from tangible towards intangible assets. Capturing and managing intangible value will be a key part of our role. All the capitals may need to be accounted for in the business model.
3. Sustainability means prioritising medium- and long-term value creation over short-term financial returns. It will also require us to engage in more challenging conversations across the wider stakeholder groups, to shift the focus to a longer time horizon.
4. Accounting and finance professionals have always had relationships with investors and providers of credit. If we are to build sustainable organisations in a multi-capital world, we will also need to develop further our relationships with customers, distributors, suppliers, employees, regulators, and other stakeholders.

The consequence of these four shifts is that management accountants will be operating in a more complex environment than in the past, and this new role will require a new skillset, centred on how we work with partners across our organisations.

A key short- to medium-term challenge for businesses is finding and retaining talent that has sustainability knowledge and skills. This is why taking a lifelong learning approach will serve us well in addressing the ongoing skills challenge.

Our success will depend on how well we can collaborate as well as analyse. Engaging with a wider range of stakeholders will place a greater premium on communication skills. Our skills will also be used in maximising the value of all the capitals and making connections between them and developing a focus on sustainability-related information. We will need to become more effective at problem-solving and creative thinking as we approach issues we may not even have considered in the past.

Adapting to this new world will undoubtably be a challenge, but it is also a great opportunity. It is a chance to extend the power of our analysis and insights right across the organisations we serve, adding value in new ways and building the sustainable future we all want to see.

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PHOTO BY BARNEY JAMES/TIMELESS PICTURES

Increasing trust in sustainability data

By Andrew Harding, FCMA, CGMA

Environmental, social, and governance (ESG) issues are increasingly appearing at the top of political, business, and societal agendas. Sustainability has fast become a significant lens through which organisations are being judged by investors, regulators, and wider society.

However, we all know that the journey is not an entirely smooth one. There have been plenty of public controversies over alleged "greenwashing". As accounting and finance professionals this should cause significant concern because we know how important it is for stakeholders to be able to trust the data organisations produce.

Trust is the keystone of our profession, and it is how we add value to the organisations we serve. Our purpose depends on maintaining this trust, and this commitment must now extend as much to sustainability data as it always has to financials.

This aspect of our work is becoming more pressing because this year we are experiencing a step change in the level of mandatory sustainability reporting. Building on the Integrated Reporting <IR> Framework and mapping several of its elements, IFRS standards S1 and S2 issued by the International Sustainability Standards Board have become effective and are being adopted in jurisdictions around the world. In the EU, accounting and finance professionals are already collecting data on sustainability risks, opportunities, and impacts for the first set of annual reports due to include these in 2025.

Building sustainable organisations may require entire business models to be remade, with sustainability built into processes right along the value chain. That means management accountants need to be on top of the concepts and, importantly, the processes for collecting and recording the data in a way that is meaningful and actionable. It is imperative that we seize this opportunity to position ourselves as effective and value-adding business partners with organisations' ESG and sustainability function.

To build the next generation of sustainable organisations, we need to be thinking much more deeply about how we integrate ESG into all our processes. Risk management is a good example. High-performing organisations will have plans in place to mitigate ESG-related risks, and the development of these plans is likely to have uncovered opportunities for innovation, resilience building, and long-term value creation. This shows how embedding ESG will become a central part of how value is identified, created, captured, and recorded.

AICPA & CIMA have the resources to prepare you for this change. The Fundamentals of ESG Certificate is available globally and equips you with a baseline knowledge of ESG topics. The nine-hour course offers a grounding in fundamental concepts and latest developments within the ESG field. If you want to deepen your understanding, you should consider the online executive management certificate course in sustainability for accounting and finance professionals we offer in partnership with the University of Oxford's Saïd Business School.

I firmly believe that our members are ready to play their part in the shift towards sustainable business practice, which is accelerating this year. It is a great opportunity for our profession and for the organisations we work for to integrate ESG into their practices and unlock new value as a result. ■

Andrew Harding, FCMA, CGMA, is chief executive–Management Accounting at AICPA & CIMA, together as the Association of International Certified Professional Accountants.

PHOTO BY SERGEI GAPON/GETTY IMAGES

4 actions for CFOs to stay ahead on ESG

CFOs should understand the interplay between sustainability risks, opportunities, impacts, and value creation — and regulations and reporting requirements.

By Anita Dennis

The world's first container ship to run partly on methanol emits 100 tonnes less CO_2 per day than purely diesel ships. Maersk has ordered 24 similar ships.

Issues related to environmental, social, and governance (ESG) factors have long been on CFOs' agendas, but a number of developments in the past year have moved them to the forefront.

Jurisdictional policies, supported by several new or proposed requirements on ESG reporting and disclosure are driving this acceleration, creating a range of considerations for CFOs as they determine how best to address this multifaceted and important area. Here are some tips finance leaders can follow to help lead change.

Monitor regulations and standards

"There is momentum among stakeholders, who are demanding and requiring much broader and deeper understanding of a business, more transparency," said Jason Hamilton, ACMA, CGMA, principal, leveraged finance, at Nedbank in Cape Town. The pressure driving new regulations comes from shareholders and investors as well as financiers, customers, suppliers, and society in general.

Although some ESG requirements may apply only within specific jurisdictions or industries, some will have a global impact. The EU's Corporate Sustainability Reporting Directive and two new climate change-related laws from the US state of California apply to companies doing business within their jurisdictions (see the sidebars "ESG Requirements: EU" and "ESG Requirements: California, US").

The initial standards of the IFRS Foundation's International Sustainability Standards Board (ISSB), however, will have a more global reach (see the sidebars "ESG Requirements: ISSB" below and "Integrated Reporting and Sustainable Businesses" on page 14). The US Securities and Exchange Commission's climate-change rules would also have a significant effect for listed companies in the US.

As a result, no matter where a company is based, if it has international interests, it may need to report on ESG from as early as the financial year beginning 1 January 2024.

Whether or not they are immediately affected by the standards, CFOs should be familiar with sustainability-related risks, opportunities, and impacts that have a material financial impact on their organisation and where their organisation has a material environmental and social impact through their operations, value chain, products, or services. Even those that are not subject to the standards will be affected as organisations reach down their supply chain for information on their business partners' practices.

Failure to understand and comply with applicable mandatory standards could carry significant penalties, noted Rex Gu, FCMA, CGMA, Europe head of finance,

ESG requirements: ISSB

Standard-setter: The IFRS Foundation's International Sustainability Standards Board (ISSB).

Standard/law: IFRS S1, *General Requirements for Disclosure of Sustainability-Related Financial Information*, from the IFRS Foundation's International Sustainability Standards Board (ISSB), establishes how entities should disclose information about sustainability-related risks and opportunities that the users of general-purpose financial statements can use in decision-making about providing resources to the entity.

The ISSB's IFRS S2, *Climate-Related Disclosures*, requires entities to disclose information on climate-related risks and opportunities that users of general-purpose financial statements can rely on in their decision-making about providing resources to the entity.

Applies to: Entities that are required by their jurisdictional regulators to adopt them or that do so voluntarily because of considerations such as the value that reporting provides for the entity or in response to stakeholder demands for more sustainability information.

The International Organization of Securities Commissions, which regulates the world's securities and futures markets, has endorsed the ISSB standards and called on members to apply them, so they are expected to become mandatory for more entities.

Numerous countries are on a path to adopting them. The UK has said it is considering endorsing the ISSB standards and creating the first two UK Sustainability Disclosure Standards. Expected by July 2024, the UK's decision could set a precedent for other G8 countries that are not in the EU to adopt the ISSB standards, according to Jeremy Osborn, FCMA, CGMA, CPA (Australia), D.Phil., global head of sustainability at AICPA & CIMA.

Effective date: Both standards are effective for annual reporting periods beginning on or after 1 January 2024 (earlier application is permitted as long as both standards are applied together).

Logistics, at Copenhagen-based A.P. Moller - Maersk, one of the world's largest shipping and logistics companies. "In this sector, adherence to evolving ESG regulations, such as emissions standards for maritime transport, is critical," he said, adding, "CFOs must ensure compliance and enhance the transparency and quality of ESG reporting."

Focus on rigorous ESG reporting

Investors will expect the quality of sustainability-related financial data to be on par with that of financial data, said Jeremy Osborn, FCMA, CGMA, CPA (Australia), D.Phil., global head of sustainability at AICPA & CIMA, together as the Association of International Certified Professional Accountants. When new ESG standards call for independent assurance, CFOs signing off on sustainability-related financial data will be responsible for its accuracy and completeness.

In addition, CFOs, who are used to internal controls over financial reporting, will now have to focus on internal controls over sustainability reporting and the sustainability-related financial data involved, according to Ash Noah, CPA, FCMA, CGMA, vice-president and managing director–Learning, Education, and Development at AICPA & CIMA. "Any report on ESG should be based on data and backed up by evidence and [be] defensible," he said. That may require adding ESG reporting expertise to the finance team and exercising close oversight if drawing on sustainability expertise from external consultants. "Be sure you treat sustainability reporting with the same level of rigour as financial reporting," he said.

Currently, sustainability information may be managed mainly by the sustainability team, noted Osborn, but he anticipates that the team will collaborate more with finance. And while finance may or may not have ultimate responsibility for collecting the data, it can play an important role in improving ESG data quality, he said.

In companies large and small, the challenge for many CFOs will be to have a clear view of ESG efforts and identify gaps in reporting them. CFOs will need to gauge their organisation's ability to implement any mandatory standards or meet stakeholders' reporting expectations, Hamilton said. In addition to assessing capabilities to collect, measure, and report ESG data, leaders will also need to identify current ESG initiatives.

Articulate ROI for ESG efforts

Given the increasing frequency and pace of market change, CFOs should be aware that the ESG ecosystem is developing faster than regulators can react, according to Hamilton. Companies looking to meet carbon reduction and net-zero targets, let alone broader ESG goals, "can't waste any time waiting for regulators to provide guidance for them". Instead, companies will need to proactively address and clearly communicate how sustainability-related risks, opportunities, and impacts affect a company's performance and prospects, cost of capital, and access to capital.

How are companies doing that? At Maersk, a new container ship, the world's first partly run on methanol, emits 100 tonnes of carbon dioxide less per day than diesel-based ships. The company has already ordered 24 similar ships, and competitors are following suit. As a Maersk CFO, Gu must ensure the investment is worthwhile and provide operating expense calculations for decision-making. This includes deciding if new related costs should be passed on to customers or covered in other ways. Because the ROI for ESG investments may not be immediately clear, CFOs may need to articulate the value of recognising the long-term economic advantages, he said.

ESG requirements: EU

Standard-setter: The European Commission

Standard/law: The European Commission's Corporate Sustainability Reporting Directive (CSRD) strengthens the rules concerning the social and environmental information that companies within scope need to include within a dedicated section of the management report.

The CSRD introduces an innovative element: a double materiality assessment. Companies are mandated to identify sustainability factors from a financial materiality perspective (ie, the impact of environmental and societal factors on the company's financial performance) and also assess impact materiality (ie, the impact of the company on the environment and society).

Companies subject to the CSRD are required to report according to European Sustainability Reporting Standards (ESRS), which are issued by the European Commission under delegated regulation. Twelve ESRS standards have been issued, including one standard on general principles for sustainability reporting (ESRS 1), one on general disclosure requirements (ESRS 2); and ten more focused on environmental (ESRS E1–E5), social (ESRS S1–S4), and governance (ESRS G1) concerns.

Applies to: See under "Effective Date"for details.

Effective date: Across the EU, large listed companies, large banks, and large insurance organisations with more than 500 employees must report in line with ESRS during the 2024 financial year, with the first sustainability statement published in 2025.

Other large companies that exceed two of three criteria must start reporting in financial year 2025, with the first sustainability statement published in 2026. Those criteria are 250 employees, net revenue of €40 million, and net assets of €20 million.

Listed SMEs must begin reporting in financial year 2026, with their first sustainability statements published in 2027. Listed SMEs can opt out of the reporting requirements for a further two years (under brief explanation in the management report) but must begin reporting by financial year 2028, with the first sustainability statement published in 2029. Separate standards will be adopted specifically for SMEs.

Non-EU companies that generate more than €150 million annually in the EU and that have either a branch with turnover in the EU of more than €40 million or a subsidiary that is a large company or a listed SME in the EU will have to report the group-level sustainability risks, opportunities, and impacts beginning in financial year 2028, with the first sustainability statement published in 2029.

Consider social and governance concerns

Although ESG discussions have long focused on environmental concerns and climate change, CFOs should not overlook the social and governance sides addressed by IFRS S1 and S2 and European standards.

In considering social concerns, CFOs will have to ask how the business is affecting communities. The EU ESG standards on social issues provide examples of how CFOs should be looking at these issues, Noah said. They address the treatment of a company's own workers as well as its impact on workers in its value chain. They also cover the consumer impacts of a company's products and services. "Organisations better start to understand these dimensions and how they affect the ability to generate future cash flows," he said. "Anything social presents opportunities or risks, so it has to be on the CFO agenda."

Governance encompasses numerous issues too, including ethical corporate conduct, board and management skills, experience and diversity, and shareholder rights. Hamilton expects that organisations will need to approach governance more strategically, with a greater focus on effective management and accountability. He sees stakeholders as key to the process. "How we approach and work with them can create strong trust relationships, which ultimately becomes a competitive advantage and supports the core business," he said.

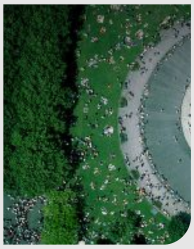
Opportunity and risk

For many companies, failure to properly address ESG requirements and stakeholder expectations could be an existential issue, Noah said. "Anything, whether an opportunity or risk, that has a material impact on future cash flows must be on the CFO agenda."

However, with so many new considerations and requirements, it can be hard for CFOs to know where to begin their efforts.

Organisations should begin by determining what changes are immediately necessary. That might mean anything from simple compliance with a narrow segment of standards to changing the company's business model. CFOs can then take a leadership role in providing the information and insights needed to address each company's unique ESG risks and opportunities. ■

LEARNING RESOURCES



Fundamentals of ESG Certificate

Kick-start your understanding of ESG issues with this course, designed to help you learn how the landscape has developed and the key role CPAs and finance professionals have to play.

COURSE

ESG and Sustainable Financial Strategy Course

This course, developed in partnership with the University of Oxford's Saïd Business School, will provide professionals with the skills to lead their organisation's response to sustainability issues and understand how to integrate these into decision-making and resource allocation.

COURSE

Anita Dennis is a freelance financial writer based in the US. To comment on this article or to suggest an idea for another article, contact Oliver Rowe at Oliver.Rowe@aicpa-cima.com.

AICPA & CIMA resources

Articles

"ESG Becomes Top Priority for Finance Leaders", *FM* magazine, 13 November 2023

"5 Ways to Incorporate Sustainability Practices in the Workplace", *FM* magazine, 13 September 2023

ESG requirements: California, US

Standard-setter: State of California, US
Standard/law: The US state of California's S.B. 253, the Climate Corporate Data Accountability Act, will require companies to annually report their direct (Scope 1), indirect (Scope 2), and value chain (Scope 3) greenhouse gas emissions.

California's S.B. 261, the Climate-Related Financial Risk Act, will mandate that companies publish a public report by 2026 (and biennially after that) disclosing their climate-related financial risk, as well as measures taken to reduce and adapt that risk.

Both S.B. 253 and S.B. 261 require the California state board to publish emissions information for all reporting entities on the board's website.

Applies to: S.B. 253: Public and private US companies doing business in California with annual revenue of more than $1 billion.

S.B. 261: US entities with total annual revenues in excess of $500 million and that do business in California.

They apply to both public and private entities and to companies within the US and foreign public companies doing business in California.

Under state law, an entity is considered to be doing business in California if it engages in transactions there for financial gain; is organised or commercially domiciled there; or meets certain sales, property, or payroll thresholds there.

Effective date: Entities must begin making disclosures in 2026. Under S.B. 253, Scope 3 emissions reporting would not be required until 2027 on 2026 data.

How a conglomerate streamlined its ESG reporting

IMAGE BY VALIANTSIN SUPRUNOVICH/GETTY IMAGES

Sri Lanka-based Hayleys Plc is an expansive conglomerate that has centralised and streamlined ESG reporting to ensure data consistency and integrity.

By Jamie Roessner

A company founded in 1878, Sri Lanka-based conglomerate Hayleys has within the past three years strategically increased its emphasis on sustainability and environmental, social, and governance (ESG) efforts, with an additional focus on strengthening disclosure reporting.

"This is a company [that] has extensive interests across communities, throughout agricultural smallholder networks, and diverse value chains," said Prashani Illangasekera, ACMA, CGMA, deputy general manager, Group ESG at Hayleys. "These concepts and the ethos of creating value beyond shareholders has always been part of who we are [at Hayleys]."

In 2022, Hayleys formulated its ESG road map and action plan, Hayleys Lifecode, which is rooted in the UN's Sustainable Development Goals (SDGs). Additionally, to strengthen the organisation's internal ESG governance structure, it created a central Group ESG division that now reports to the Group CFO.

Monitoring metrics and analysing data on energy and water consumption, waste generation, emissions, human resource indicators, and other ESG initiatives as part of this reporting push is complicated, given the diversity and breadth of Hayleys' business interests: Hayleys has more than 170 companies, spanning 16 sectors that include transportation and logistics, purification solutions, glove manufacturing, textile manufacturing, and plantations and agriculture. Hayleys Group accounted for 5.5% of Sri Lanka's export income in 2022–2023.

The biggest challenges, according to Illangasekera, are efficient data aggregation, ensuring data integrity, and remaining compliant with evolving reporting standards and frameworks. “Consistency and centralising operations are key,” she said.

Illangasekera shared with *FM* Hayleys’ approach to ESG and sustainability, the finance team’s involvement and reporting efforts, and three lessons for how CFOs can support their organisation’s ESG initiatives. (See also the sidebar, “Integrated Reporting and Sustainable Businesses”.)

Illangasekera’s responses have been edited for length and clarity.

What is Hayleys’ approach to ESG overall — the big picture?

Prashani Illangasekera: ESG is part of who we are. In terms of formalising sustainability and ESG, we’ve really strengthened our ESG governance structure. We established an ESG Steering Committee with board and GMC (Group Management Committee) representation. Governing the Hayleys Group, we have the board of directors, and the Group Management Committee (GMC), which includes all the business heads from our 16 sectors, the Group CFO, the head of HR, and legal.

It is through the Steering Committee that ESG is really driven in a strategic way across our companies.

How is Hayleys working with companies in its Group to advance ESG initiatives?

Illangasekera: The Hayleys Lifecode centres on the key environmental, social, and governance areas that we want to focus on as a group. On the environmental side, we have energy, climate, biodiversity, wastewater, and materials. Then on the social pillar, we have employees, health and safety, customers, suppliers, and communities. On governance, we have ethics, stakeholder engagement, transparency, and anti-corruption.

All sectors are completing their own ESG road maps and setting their own targets, which are aligned to the Hayleys Lifecode — and our larger sectors have already achieved this.

If you look at our sectors, they are very independent business units on their own. They have their own boards and very strong leadership teams. Sometimes it’s difficult to harmonise ESG aspirations across all these companies, but that’s what we are trying to do from the centre.

In terms of implementation and how it happens practically, we have ESG champions in each sector. Some of them are dedicated roles; some of them are actually ESG teams. All policies, standards, procedures, and Group-wide initiatives are cascaded down to sectors, ensuring that we are all working towards the same goals.

What role is finance playing in this?

Illangasekera: A few years ago, with the developments in reporting, the sustainability function was brought under the CFO. Now I report directly to the Group CFO who also functions as the head of Group ESG.

That has really helped in terms of improving the discipline of reporting. When you are a finance person, you look at numbers differently and are able to spot anything that is slightly off.

We are trying to replicate this model across our sectors as well. In several of our sectors the finance director or CFO is the person responsible for sustainability. With the shift to IFRS S1 and S2 standards, we have looked to strengthen the role of the finance person in sustainability reporting.

The finance and sustainability teams have to come together because the new standards are essentially looking at the financial implications of sustainability-related risks and opportunities.

To what extent are Hayleys’ finance teams working with its suppliers on ESG?

Illangasekera: This is an area that we can make a lot of progress on. Within the Hayleys Lifecode, we included a target on supplier assessment — environmental and social assessment of all suppliers.

There is a lot of work at the grassroots level, within our export manufacturing sectors. For example, our agriculture sector sources from more than 11,000 out-growers in rural communities. The sector works with these out-growers in giving them the inputs, in providing capacity building for sustainable agriculture.

We have a value-added glove manufacturing arm holding about 5% of the global market share for its products. It has a network of about 5,000 rubber farmers. There is an ongoing programme called DPL Firstlight, which promotes ethical sourcing of rubber, and again there's a lot of capacity building.

There's a lot of investments in community development to strengthen this relationship with the suppliers, but we also ensure that there's a lot of knowledge sharing that happens.

How is new technology a part of this?

Illangasekera: When we started this journey, data capture spreadsheets were used. These worksheets were circulated to all the companies, who would then fill out the data and send it back to the centre.

But with the evolution of the Group, we acquired new sectors and evolved our reporting frameworks. Reporting became increasingly more complex and became sector-specific as well. For example, with the sector-specific guidance from Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB), there is an array of sector-level disclosures that are required.

As a result of this, Hayleys developed its own digitised sustainability information system through its own software-developing arm. This is called the Hayleys Cube, and the Cube now lets users across all our facilities input data into a web-based system. It is aggregated here at the central level.

With spreadsheets, it is challenging to manually consolidate over 170 companies. You also can't assess the accuracy or the integrity of the information. The system has really helped with that because when there are significant variations in the data, the system flags it and asks, "Are you sure this number is correct?"

What ESG reporting frameworks does the company use? How has that changed, and what are planned changes ahead?

Illangasekera: I think like most companies that started sustainability reporting, we commenced this journey with the GRI Standards and adopted the new revisions whenever there were changes. We were one of the first adopters of the new standards in Sri Lanka two years ago.

In addition to that, we started reporting on the International Integrated Reporting <IR> Framework. We also adopted several industry standards of SASB and recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). We are still at early stages of TCFD reporting and are looking to improve our disclosures in the future.

But the challenge for us is the complexity of our group and the fact that our scope is constantly evolving. There are always new acquisitions, new developments, and those have to be brought into our reporting system as well. That has been the challenge.

We are also looking to voluntarily adopt IFRS S1 and S2 in the next reporting cycle. There's a lot of work going on now on transitioning to those two standards.

And what are lessons for CFOs in other organisations?

Illangasekera: Firstly, I think CFOs need to adopt a long-term approach. In terms of long-term performance, social and environmental risks are now critical in risk landscapes. CFOs need to start understanding this and looking at profit beyond one or two years, to five or ten years down the line, where the implications of climate change and other natural events will have serious implications.

Prashani Illangasekera, ACMA, CGMA, is deputy general manager, Group ESG at Hayleys.

Secondly, CFOs need to start looking at the connectivity between the "nonfinancial" numbers and the financials.

At Hayleys, we like to refer to the "nonfinancial" indicators as prefinancials because these are the things that ultimately determine your financial performance. How much energy are you consuming? How efficient is your energy usage? What is your water intake? All that determines your financial performance, and so we need our teams to start seeing that link.

The third lesson is that the finance unit must play an increasing role in [sustainability-related financial] reporting. Here at Hayleys, the annual report is done centrally by my team and the finance team together.

What further advice would you have for finance leaders on approaching ESG?

Illangasekera: In general, finance leaders

Integrated reporting and sustainable businesses

An integrated report tells a more complete story of how an enterprise creates value over the short, medium, and long term. It creates a holistic narrative of an enterprise beyond the financials and helps the organisation join the dots across silos, driving integrated thinking, planning, and performance.

Integrated reporting incorporates material sustainability-related information and provides meaningful insights into an organisation's use of and impacts on tangible capital, such as financial and manufactured, as well as the intangible elements of an enterprise, such as its human, intellectual, social and relationship, and natural capital.

The sustainability disclosure standards IFRS S1 and S2 issued by the International Sustainability Standards Board build on the concepts of the Integrated Reporting Framework. When used with these standards, integrated reports provide decision-useful information to providers of capital and help improve the efficiency of capital markets through higher-quality information relating to the business model, risks and opportunities, strategy and resource allocation, and performance and prospects of an enterprise.

need to start building their curiosity to understand this systems perspective and how many external factors are now shaping performance. These are areas that finance leaders need to start exploring and understanding to build sustainable and resilient businesses.

Sustainability and ESG has evolved from being a good corporate citizen and looking good to being a determinant of the actual commercial sustainability of your business. How are you going to manage the environmental and social risks that are inevitable in your operations?

For finance leaders, broadening their perspective now is critical.

How do you see the future direction of ESG reporting from a Sri Lankan and global perspective?

Illangasekera: As someone who's been in reporting for a while, this alphabet soup of frameworks has added so much complexity, and it is really challenging for a company like us. You have to maintain integrity, while making sure that we are meeting the different information needs of our diverse stakeholders and reporting frameworks.

So, there's a lot of effort, resources, tech, and processes that are required. The introduction of the IFRS standards, which are meant to be a consistent global reporting standard for everyone, are absolutely needed.

I think it will take time for companies to fully adopt because there are a lot of complexities involved. For example, IFRS S2 is on climate change, and it requires climate scenario analysis. So, for example, if global temperatures increase by 2% or two degrees, what is the impact on your revenue, on your cost, on your profitability? Thousands of variables can affect that. You need to have complex modelling capabilities to do this sort of scenario analysis.

These platforms and software are usually very expensive for local corporates, so this technology and information gap is a significant challenge.

There is a significant knowledge gap as well. It will be challenging getting there, and I think it'll take probably the next three or four years for companies to really start getting into the groove with the new IFRS standards.

Globally, investors have called for consistency in reporting, and definitely this is a step in the right direction. ■

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"Are You Incentivising Climate Destruction?", *FM* magazine, 10 May 2023

"How CFOs Are Handling the Push for More ESG Reporting", *FM* magazine, 7 February 2023

Accounting standards guidance

Resources on IFRS S1 and IFRS S2, December 2023

Climate and Sustainability/ESG page on the AICPA & CIMA website

Webcast

"Sustainability Disclosure Priorities for 2024", AICPA & CIMA, January 2024

Jamie Roessner is a senior content writer at AICPA & CIMA, together as the Association of International Certified Professional Accountants. To comment on this article or to suggest an idea for another article, contact Oliver Rowe at Oliver.Rowe@aicpa-cima.com.

IMAGE BY ANDRIY ONUFRIYENKO/GETTY IMAGES

Finance's data security strategy role

To develop a data risk strategy, start with assessing your organisation's data types and the impact of risk events, and define acceptable risk levels.

By David A.J. Axson

The media headlines on cybersecurity breaches and loss of personal data make for sober reading, and they are appearing with increasing frequency. Data security is a significant and increasingly expensive business risk. Today, almost every social or commercial interaction creates a digital footprint. Unauthorised disclosure, communication, or manipulation of that data is no longer just an IT issue but an enterprise risk that can have severe financial consequences.

IBM estimates that the global average cost of a data breach in 2023 was $4.45 million, a 15% increase in the past three years. *The Wall Street Journal* reported that more than 110 million user accounts were leaked through data breaches globally in the second quarter of 2023 alone. In many cases, the damage to an organisation's reputation and level of trust can dwarf the direct financial cost of a loss.

So, what does this have to do with finance?

Finance has always played a pivotal role in managing data across an enterprise — after all, an accountant's primary purpose is to ensure the integrity of an organisation's financial statements that are derived from data generated by business operations.

Historically, finance has focused on financial data stored in the general ledger and sub-ledger systems. The accounting code block and chart of accounts, which define the attributes of transactions and the accounts to which they should be posted, have underpinned a framework of governance, discipline, and data management that worked well for many decades. However, automation, e-commerce, and digitisation have advanced the types of data being used (eg, market, customer, operational, product, service, environmental, health, safety, control, and compliance); and the volume of data has expanded exponentially with no end in sight.

Today, finance is either the owner or a partner with IT or emerging roles such as a chief data officer (CDO) or chief information security officer (CISO), ensuring data security practices are appropriate, comprehensive, and effective. Disciplined governance must now extend from financial data to all data. This data may be housed in many parts of the organisation or with business partners and service providers.

Developing a strategy

An effective data security strategy needs to address all elements of a business's ecosystem because risk exists at every node. Finance plays an integral role in defining and operating an effective data security system through a combination of governance, stewardship, and risk mitigation. This is a multifaceted role that embraces policy-making, standard-setting, data ownership and stewardship, reporting, and compliance.

The three most important steps in developing an effective data security strategy are:

1. Conducting a data security risk assessment that identifies the types of data within your organisation and the impact of risk events such as (a) data loss, (b) data corruption, or (c) unauthorised disclosure of data.
2. Ensuring the data security policy defines the level of risk the organisation is willing to bear. The four levels of risk to consider are:
   - **Avoidance.** At first glance, risk avoidance might seem the preferred choice. However, not all risks can be eliminated. In some instances, the cost of avoidance may be greater than the risk of loss.
   - **Reduction.** Risk reduction looks to limit the potential impact of data security breaches to a manageable level. One of the simplest examples of data security risk reduction is the evolution of system and website log-on protocols from user-defined passwords that are infrequently changed, to multifactor authentication and biometrics.
   - **Transference.** Risk transference can be accomplished in different ways. Utilising third parties to perform elements of an organisation's data security and enshrining their responsibilities for ownership, accountability, and liability for different types of data risk in contracts is one such way. Cybersecurity insurance that can mitigate the losses associated with data breaches, cyberattacks, and terrorist acts that disrupt business systems is also available.
   - **Acceptance.** For most organisations, there will be a point at which the cost of control exceeds the risk of loss. In this case, an organisation can choose to accept some level of data security risk. This is equivalent to self-insurance as the organisation chooses to bear the liability associated with any data security breaches.
3. Defining the appropriate combination of policy, process, behaviours, and technologies that will provide a sustainable and cost-effective data security environment.

Besides playing a key role in the development and operation of an organisation's data security strategy, finance teams typically own the regulatory reporting requirements regarding data security. These requirements are evolving rapidly — in the US, the Securities and Exchange Commission (SEC) issued new regulations in July 2023 requiring that reporting companies provide disclosures annually on their cybersecurity risk management, strategy, and governance.

Also, in the US there is a disclosure requirement on SEC Form 8-K, Item 1.05 to be made within four business days of the "registrant determining that a

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cybersecurity incident is material". Under the EU General Data Protection Regulation (GDPR), the UK GDPR, and the UK's Data Protection Act 2018, reporting by organisations of certain data breaches to the relevant authority must be made without undue delay and at the latest within 72 hours after becoming aware of the breach.

Ensuring that an appropriate mechanism is in place to identify, diagnose, and report breaches is a minimum standard that must be met.

The AICPA has developed a cybersecurity risk management reporting framework that provides a comprehensive outline that management can use to describe their organisation's cybersecurity programme. Also, an increasing variety of local rules or voluntary standards apply to data security. For example, SOC 2, *SOC for Service Organizations: Trust Services Criteria*, is a voluntary compliance standard for service organisations developed by the AICPA, which specifies how organisations should manage customer data.

So how does finance assess whether it is an effective partner in an organisation's overall data and cybersecurity ecosystem? The following checklist provides a guide to the foundational questions CFOs and their teams should be asking themselves.

Cyber and data security checklist for finance teams

1. Have our financial data security standards kept pace with the changes in data sourcing, usage, communication, and storage?
2. Are our controls adequate to address the risk of loss, manipulation, or unauthorised disclosure of financial data?
3. Do we apply the same standards to nonfinancial data such as sensitive customer and personnel data?
4. Are data security requirements embedded in contracts with customers, suppliers, business partners, and employees? Is adequate training and education funded?
5. Have we defined our willingness to pay a ransom in the event of a cyberattack? If so, how much are we willing to pay? To what extent have we insured ourselves?
6. Are our data and cybersecurity functions adequately financed and resourced?
7. Does our board have adequate understanding and expertise in cybersecurity given our risk profile?
8. Do we routinely track changes in data and cybersecurity regulations across all the jurisdictions in which we do business?
9. Do we have a strategy to address emerging risk areas such as artificial intelligence, remote working, and the digitisation or tokenisation of assets on a blockchain where assets are traded on a digital platform?
10. Is our CFO or finance director able to explain the financial consequences of potential data and cybersecurity threats to the executive team, board of directors, investors, and regulators?

Our abilities to generate, process, and analyse data are creating completely new markets and revolutionising existing markets. However, with great opportunity comes great risk. As custodians of the organisation's financial assets, finance needs to understand the potential impact of data and cyber risk events in terms of direct financial loss and indirect impact on enterprise value and ensure that investments in security are appropriate to the risks the organisation faces. ■

AICPA & CIMA resources

CGMA Cybersecurity Tool: Risk, Response, and Remediation Strategies 2023, November 2023

"Building Cyber-Resilience", *FM* magazine, 10 January 2024

"Organisations Ill-prepared for the Stress of Complex Cyberattacks", *FM* magazine, 13 April 2023

"SEC Proposals Target Cybersecurity", *JofA*, 15 March 2023

David A. J. Axson is a former managing director with Accenture, co-founder of The Hackett Group, Inc., and former head of corporate planning at Bank of America. He currently serves as part-time finance director of Shrap, a start-up focused on the digital reinvention of cash. To comment on this article or to suggest an idea for another article, contact Oliver Rowe at Oliver.Rowe@aicpa-cima.com.

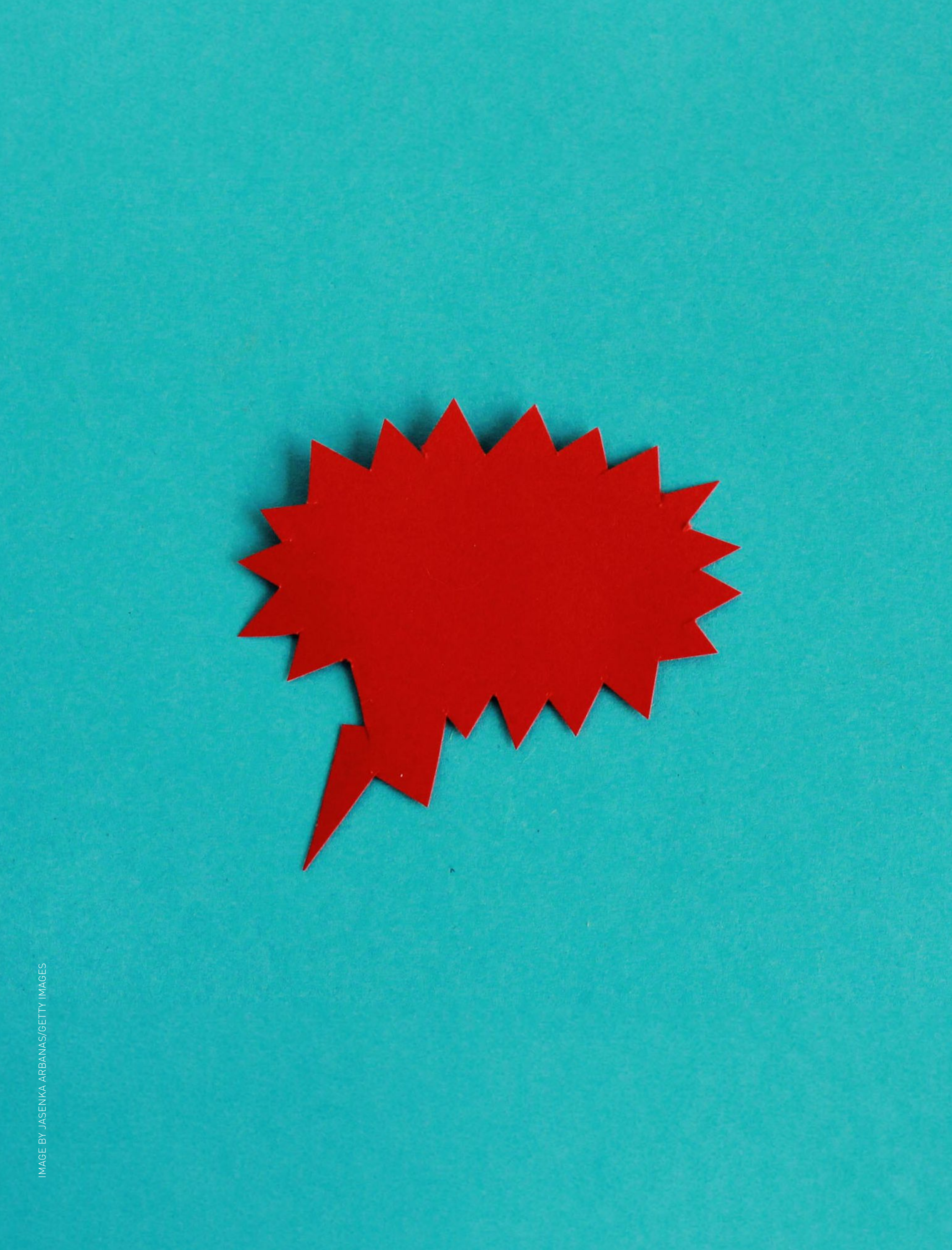

IMAGE BY JASENKA ARBANAS/GETTY IMAGES

How to deliver bad news — to an individual or team

To help preserve morale, first assess the type of bad news, talk to HR and other stakeholders, and rehearse your announcement and responses to likely questions.

By Rhymer Rigby

Nobody likes breaking bad news, but, if you do it well, you limit the damage to morale. Do it badly, however, and the impact can be far worse. So, how do you deliver bad news in the most sensitive and deft way possible?

Lay the groundwork

Many kinds of bad news — such as cutbacks due to poor business performance — shouldn't come completely out of the blue. Rather, management should keep staff in the loop so they know when something is afoot. Even if the bad news only affects one individual, that person should know if their performance has been poor or if the company is considering eliminating certain roles. There will be exceptions, of course, but these should be rare.

Not all bad news is the same

Bad news is a spectrum, and you need to work out the scope and impact of the news you're going to deliver. Often, it's obvious. The cost of car parking rising 5% is relatively trivial, whereas "We're closing this office in a month" is very serious. However, news that falls somewhere in the middle (such as underperformance) or affects individual employees differently can be tricky. An example of this might be telling two members of a team that they're not getting a bonus while their higher performing colleagues are.

Be prepared

Before delivering bad news, rehearse what you're going to say and anticipate any questions staff might have. You owe this to those you will deliver the news to. Remember that you are in a difficult position. You have to deliver the bad news to your people, but you are also looking after your employer's interests, so ensure you fully understand the situation. Speak to those above you, HR, and any other relevant stakeholders so you can deliver the news confidently and accurately.

Giving an individual bad news

This is tough, not least because here it is often really personal and the potential for clumsy delivery and an emotional employee can be great. Again, be prepared. Think through your announcement and your explanation. Be calm and clear and stick to your line. Tell the person what the situation is, why decisions have been made, and what will happen for them going forward. The basic template here is the same for everything from a missed promotion to being made redundant.

Giving a group bad news

Informing a group about bad news can be difficult too, though it poses different challenges from delivering bad news to an individual. Making an entire team redundant, while unpleasant, does not feel as personal, although there is a sense of shared pain. Call a meeting and be honest and clear. Explain who will be affected and how. Use direct language rather than hiding behind management speak.

Give the group context for why this is happening to them and explain the process. Explanations can be particularly helpful if the wider economy is to blame (again, it feels less personal). Do not talk about yourself or your feelings because this can come across as insincere and self-serving. If the bad news is unrelated to performance, it may be appropriate to say that you regret that this is necessary and that the decision is no reflection on the group's good work.

How to handle bad reactions

If anyone (members of a group or an individual) reacts badly, give them space to rant. Even if your news is not a surprise, it will still be a shock. Be ready for people to be upset and emotional. Give them time to let the news sink in, and acceptance will usually follow. If they react extremely

Give people bad news as soon as possible — do not let them find out from others. Rumours floating around for weeks reflect poor management and are demoralising for staff.

badly and acceptance does not come with time, then you will need to speak to HR.

While it's perfectly OK to sympathise with staff who have received bad news, don't get dragged into discussions about unjust decisions. If you have delivered the news, the decision is not going to change. To pretend there is a chance of altering it gives staff false hope and creates future headaches for you.

Involve staff when you can

Often, the people you deliver bad news to can suddenly feel out of control. So, try and bring them on board. If, for example, you have to make budget cuts, you might ask for suggestions. It's not great, but it's better than dictating to them. Equally, there may be a choice such as relocation or redundancy — even if they're not that appealing. Talk about support and options. Try to focus on the future as much as you can.

If you have to make some people redundant, you might start by asking if anyone wants to take voluntary redundancy. For those who are thinking of moving organisations anyway, voluntary redundancy can be a very positive thing — and a rare example of turning bad news into a win.

Pitfalls to avoid

Give people bad news as soon as possible — and do not let them find out from others. Rumours floating around for weeks reflect poor management and are demoralising for staff. Worse still is when staff discover from the news or social media that their jobs are likely to go.

When delivering bad news, avoid any ambiguity and dissembling. If you know jobs are definitely going, tell people, rather than saying you're finalising details.

Wherever possible, deliver bad news face to face, rather than by email or text (as some companies have done). Doing that looks both callous and cowardly, and it is likely to rebound negatively on the company on social media. Finally, avoid ostentation when times are tough. Think of the Japanese tradition of senior managers showing solidarity with struggling staff by taking big pay cuts, rather than paying themselves bonuses and going on flashy holidays.

Showing employees you understand the consequences of bad news and empathising with their position can go a long way in bolstering morale and weathering its aftermath. ■

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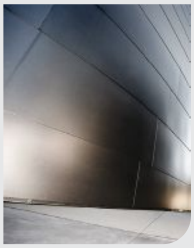

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"CIMA President: 'True Leadership Requires Courage'", *FM* magazine, 14 November 2023

Rhymer Rigby is an FM *magazine contributor and author of* The Careerist: Over 100 Ways to Get Ahead at Work. *To comment on this article or to suggest an idea for another article, contact Oliver Rowe at Oliver.Rowe@aicpa-cima.com.*

Build leadership credibility by displaying vulnerability

Showing their authentic selves and admitting mistakes can increase finance leaders' credibility and build trust with others, but there are potential pitfalls.

By Raju Venkataraman, FCMA, CGMA

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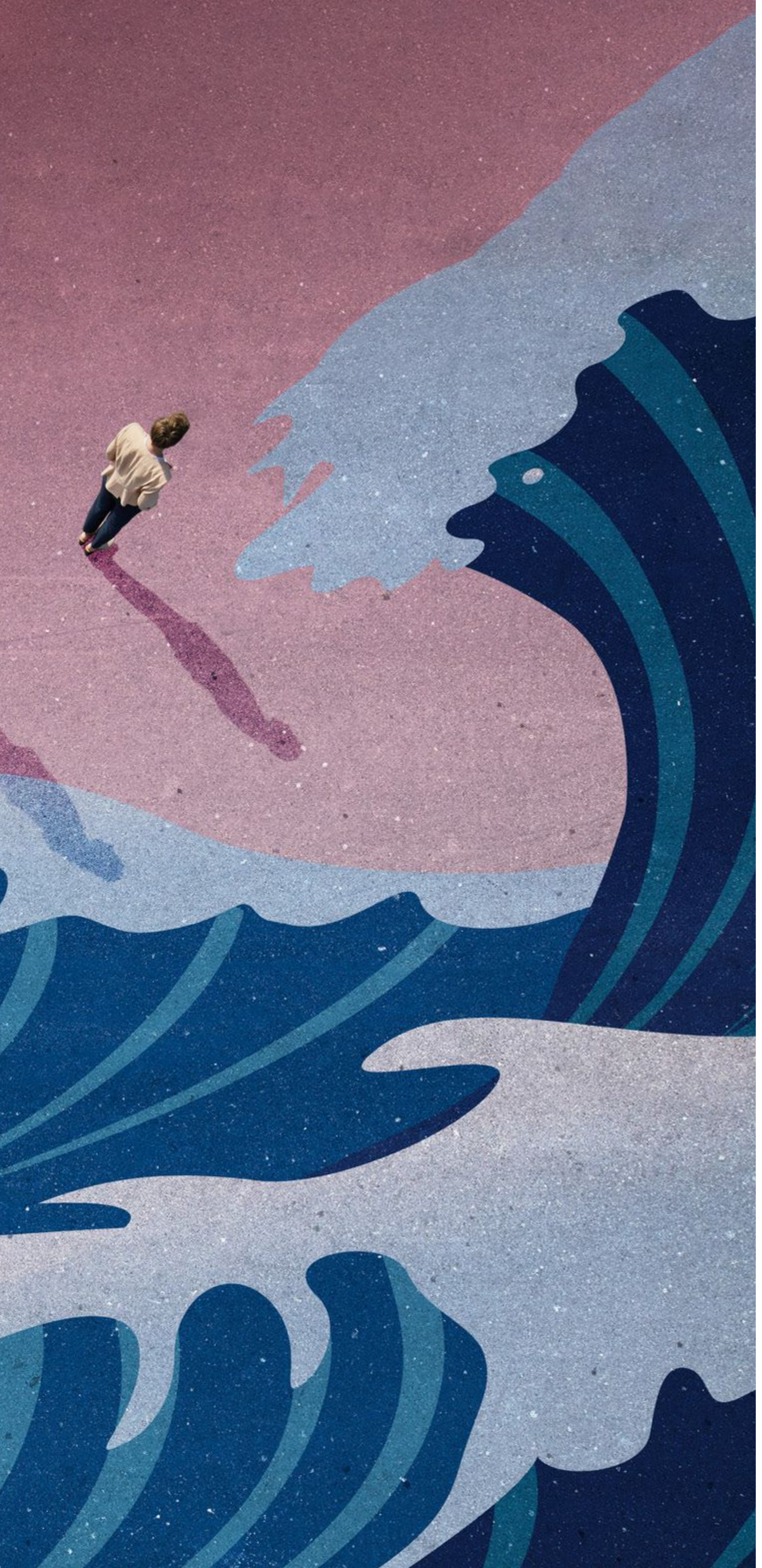

Leadership is often associated with attributes such as confidence, gravitas, excellence, authority, and coming up with solutions. And leaders are rewarded for displaying them.

These qualities are undoubtedly valuable. However, as the late Edgar Schein, co-author of *Humble Leadership* and a former emeritus professor at the MIT Sloan School of Management, pointed out, the problems leaders face are becoming increasingly complex and leaders don't have enough knowledge and information to produce answers that are expected of them. Leaders need to be humble and ask for help with respect to the problem they are trying to solve.

Vulnerability in leadership refers to the willingness of leaders to show their authentic selves, admit their limitations and mistakes, and seek feedback and support from others as needed. Rather than projecting an image of invincibility, vulnerable leaders are confident enough to acknowledge their imperfections and demonstrate humility.

Embracing our vulnerabilities is essential for personal growth, and it requires courage. As authors and statesmen have pointed out, courage is being scared and worried, yet finding a way to do what you want to do, what is needed of you, and what you believe is right.

How to be vulnerable

You don't have to stand up and share your deepest fears at the next townhall, but here are three steps that I consistently take. They may work for you, too:

1. Spend some time clarifying for yourself what is missing or not going well that you need help with. More often than not, when you're vulnerable, all you're doing is acknowledging what the world already knows.
2. Whose help are you going to seek? Talk to someone you trust. An ideal choice would be a colleague or senior whom you admire for that particular capability or who you think can make available the resource you need to develop that capability.
3. You can decide what you tell them — how much, which details — and then open up slowly.

It feels liberating to be able to stop pretending that you are invulnerable and omniscient. It is, in fact, futile for leaders to project an image of infallibility.

There are, however, important considerations when following these three steps:

- Develop a relationship of trust over a period of time by incorporating vulnerability little by little in an authentic manner. You don't have to reveal everything at once or reveal all at every vulnerable moment. Open up gradually, starting with the area you are keen to work on: "One thing I know I'm not great at is x, but I am keen to work on it."
- Continue sharing why this is a concern for you, if you judge the person you are talking to as receptive. Where applicable, share how you admire that person for that very quality: "I noticed you're really effective at articulating your views in a succinct manner. That's something I'd like to get better at, and it's motivating for me to see that it's possible."
- As you discuss more, you can judge whether mutual trust and chemistry develop.
- Based on that, decide to share more fully to ask for their help with what you're working on. Sometimes, it works the other way — asking for help proactively is an explicit way to build trust.
- Open up because you want to be yourself, be connected, and be authentic. Opening up to gain sympathy, pity, friendship, or approval may backfire.

Be aware that the above steps involve putting yourself out there, and, as you cannot be certain how your colleagues feel about you, it could change the dynamics of the relationship in a way you had not foreseen.

As an additional tip: Before you practise vulnerability with others, practise vulnerability with yourself. For example, pick up a new hobby, such as learning to play a musical instrument you have longed to play and may even have tried before and failed. Or consider having a crucial conversation that you may have been putting off, perhaps with a family member.

Vulnerability-driven trust within a team or organisation is not something that can be achieved with a couple of moves. It requires a deep and long-term commitment to turning around an entrenched culture and will be achieved through repeated (by different team members) shared experiences, and most importantly, by continual modelling by managers of the level of trust and vulnerability that they want their team to emulate. Trust and transparency are interwoven.

Good leaders will not only elevate their game by addressing their vulnerabilities, but they will also help team members overcome theirs by guiding and encouraging them, as well as by helping them leverage the organisation's training resources.

Benefits that flow from being vulnerable

Leaders who demonstrate vulnerability can benefit in several ways:

- Once your team members trust you, they're more likely to open up to you and share their ideas.
- There's no faster way to lose credibility as a leader than to posture that you know everything. Gain support and understanding by admitting you don't have the answer to a problem. Say something such as, "Let me give that more thought", or ask, "What do you think is the right solution?"
- When you make a mistake, displaying vulnerability by sincerely apologising and taking steps to make amends can help convert mistakes into opportunities to build stronger bonds with the affected party.
- It is more likely that when a leader acknowledges their mistakes or shortcomings and thus shows vulnerability, team members feel safe to do the same and then to seek support for growth in those areas. Many times, this can prevent costly business problems down the line.
- Leaders who acknowledge their vulnerabilities help their teams realise that growth is an ongoing process. This encourages team members to step outside their comfort zones, experiment, and innovate.
- It feels liberating to be able to stop pretending that you are invulnerable and omniscient. It is, in fact, futile for leaders to project an image of infallibility. Vulnerability-driven trust allows people to face their challenges with more confidence. After sharing, they often realise they are not alone in this.

Modelling the behaviour for others

In the last few years of my corporate career, vulnerability became a more natural part of my leadership style, but it certainly didn't come easy. I cut my corporate teeth in a traditional hierarchical management structure based largely on the belief that the manager had to be smarter and more capable than his team in all respects.

However, as I better understood the art of leadership, I had to take deliberate and conscious steps towards incorporating an acknowledgement of my vulnerabilities, in the manner I've described above. And yet there were, and still are, moments when I hesitate. The biggest lesson I learned in the process is: If you want others to share their vulnerability, you'll have to sincerely give it a go first.

Can being vulnerable backfire?

Showing vulnerability can backfire when it's used for the wrong reasons or in an inappropriate context. You therefore need to be mindful of the following:

- Vulnerability is not a tactic. You can't manufacture it. When a display of vulnerability strays from authenticity, it can seem fake and scripted, and this will break rather than build trust. Vulnerability is simply the state of being your authentic self with another person without expecting something specific in return.

- Vulnerability demonstrated to gain sympathy, leniency, or approval is manipulation and will damage trust. The real goal of vulnerability is not for us to seem more vulnerable, it's simply to express ourselves as genuinely as possible.
- Leaders should be mindful not to disclose important and sensitive matters in a way that could be misused or misinterpreted. For example, simultaneous disclosure to all affected parties is best, and it is preferable if you or a colleague on the leadership team can be present to answer questions and address concerns that team members may have, such as "How is this going to affect us?", "What do we do next?", or "What's at stake?".
- Oversharing — offloading an inappropriate amount of emotions and personal history — in an attempt to build instant camaraderie (or gain sympathy) is unattractive. It conveys desperation, neediness, or attention-seeking. The tipping point can be fuzzy — read the room before you share.
- Establish basic credibility with a new team or in a new situation before you share vulnerabilities. For example, a leader who is promoted to the role of general manager is likely to lose credibility instantly if they tell their new team in their first address: "I badly want to do this role. However, I am clueless, and it's scary. I'll need your full cooperation."
- In toxic work cultures, vulnerability can become a liability and be seen as "being weak" or as "giving ammunition to adversaries". For example, one of my coachees who had worked in a company with a hypercompetitive culture said of his experience that he was targeted for showing vulnerability about not knowing the ins and outs of something his peers weren't experts in either. "In such a culture, you'd be marked down as the next victim of 'natural selection' as the news spreads," he said.

A challenge

When was the last time you admitted, "I need help"? Incorporating vulnerability judiciously in your leadership style can be immensely helpful for leaders and managers, and a game-changer for organisations. However, as with everything, this comes with certain caveats, too, as noted above.

Here's a challenge to consider: Find someone at work whom you trust and respect, share with that person something you're working to get better at or something you appreciate about him or her, and see what shifts in the relationship. ■

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"Managing Up Successfully for Career Advancement", *FM* magazine, 27 July 2023

"5 Ways to Develop as an Authentic Leader", *FM* magazine, 22 November 2022

Raju Venkataraman, FCMA, CGMA, is a leadership and career coach with more than 30 years of experience in finance, strategy, media distribution, and leadership development across various industries. He is based in Singapore. Parts of this article have been previously posted to LinkedIn under the title, "Vulnerability: Hello Leader, Let the Light in Through Those Chinks in Your Armour". To comment on this article or to suggest an idea for another article, contact Oliver Rowe at Oliver.Rowe@aicpa-cima.com.

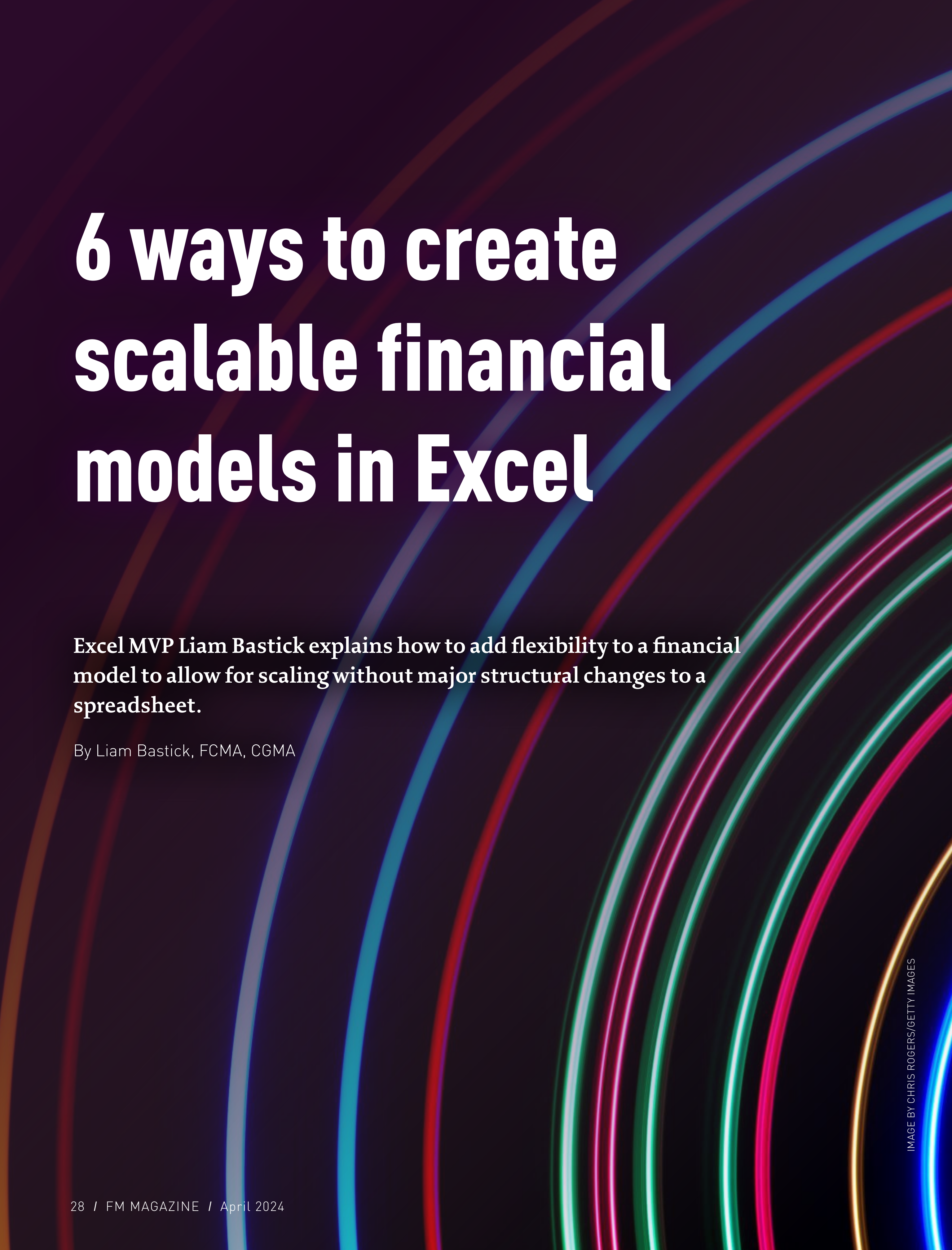


IMAGE BY CHRIS ROGERS/GETTY IMAGES

6 ways to create scalable financial models in Excel

Excel MVP Liam Bastick explains how to add flexibility to a financial model to allow for scaling without major structural changes to a spreadsheet.

By Liam Bastick, FCMA, CGMA

Financial modelling plays a vital role helping businesses make financial decisions by forecasting the future results based upon historical data and current assumptions. However, as data evolves and new information emerges and is gleaned, financial models must adapt and integrate accordingly, ie, link appropriately while reporting flexibly and consistently.

This is where scalable financial models come into play by offering the end user the ability to add or modify inputs — for example, extending the number of periods, revising product types, and considering newly acquired businesses or divisions.

Let's consider how to design an Excel financial model with the necessary flexibility and scalability borne in mind.

Definition

A scalable financial model is designed to accommodate growth in multiple dimensions without major structural changes. It might use Tables, dynamic array formulas, or even create new sheets to achieve the scalability required. A new line of business, a new product, or even a new entity may be added to the model with minimal adjustments.

Besides using these tools, we can also design scalable models in what is known as a "modular format" with many reusable components, designed to be later duplicated or copied and pasted to create new sections. It is important to consider the designs required for scalability in the model in advance, so that model consistency, robustness, flexibility, and transparency (CRaFT) are maintained.

Here are six ways to introduce flexibility into an Excel financial model to allow scaling up without structural changes.

1. Dynamic arrays

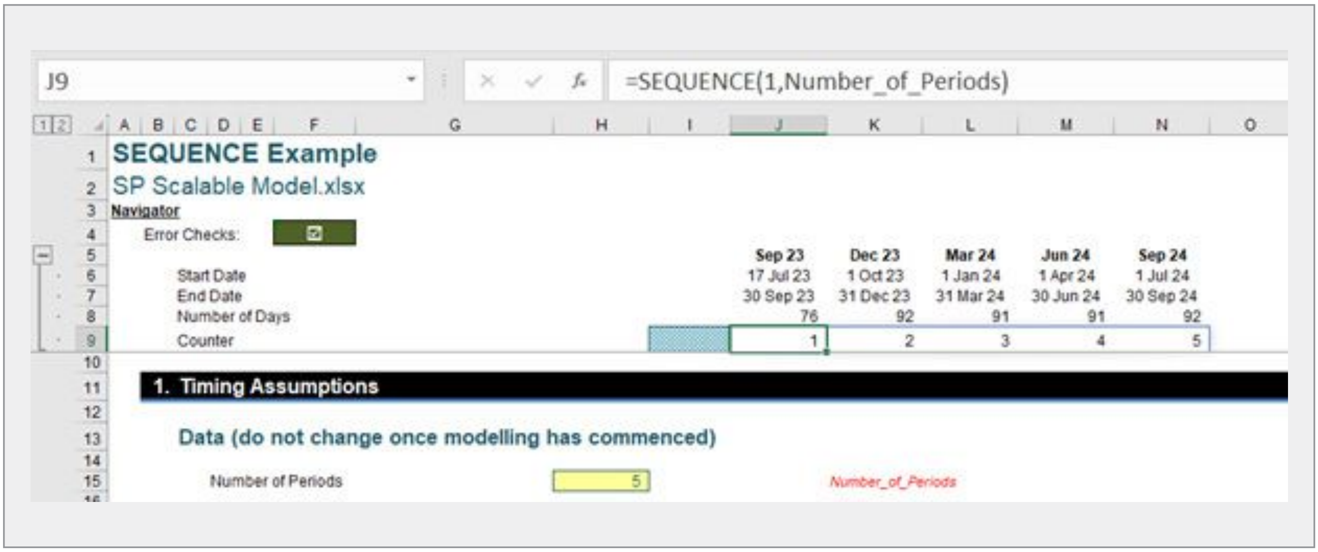
One option is to adopt dynamic arrays. A dynamic array is a feature in Excel that enables a formula to automatically expand or contract (a feature known as "spilling"). A particularly notable dynamic array function is SEQUENCE, which may be used in conjunction with INDIRECT, SUMIFS, SCAN, OFFSET, and/or IF functions. SEQUENCE allows for greater flexibility in the model because it can adjust to changes in the data without requiring manual adjustments to the formulas.

For example, let's say we want to create a timing feature that may change the number of periods based upon a given input cell. We can use a SEQUENCE dynamic array formula to help us do just that:

=SEQUENCE(1, Number_of_Periods)

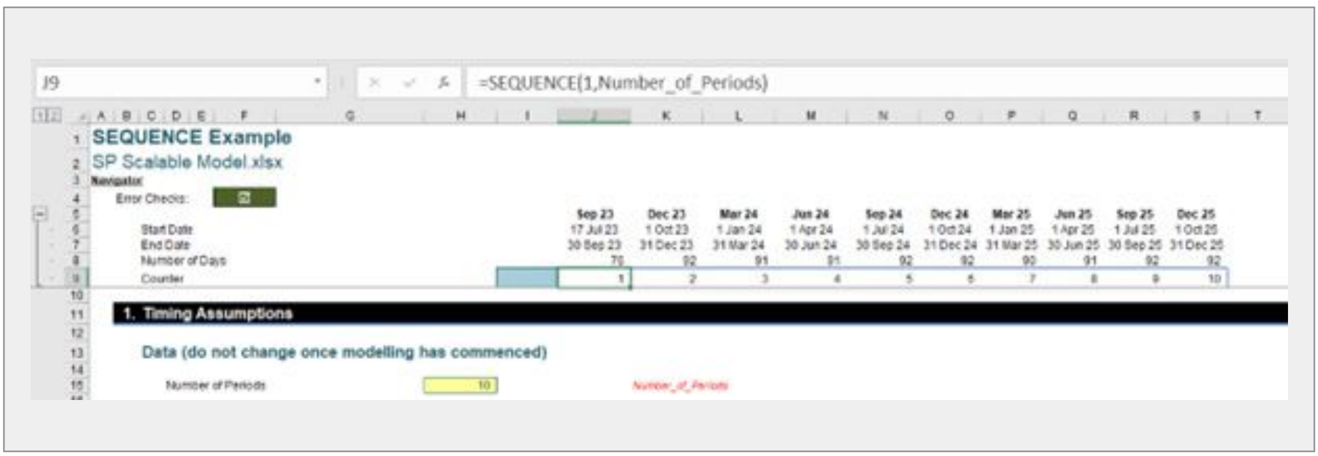
The Number_of_Periods here is a named range that refers to the given input cell, which in turn specifies the number of periods we wish to enter (see the screenshot "SEQUENCE Example").

SEQUENCE example



This formula will allow us to create a sequence of numbers from one [1] to the value of Number_of_Periods. We use two arguments to cite that the formula should spill over one row and Number_of_Periods columns. If we enter "10" into the Number_of_Periods cell, we will expand our counter from five [5] to ten [10], as shown in the screenshot "SEQUENCE Expansion Example".

SEQUENCE expansion example

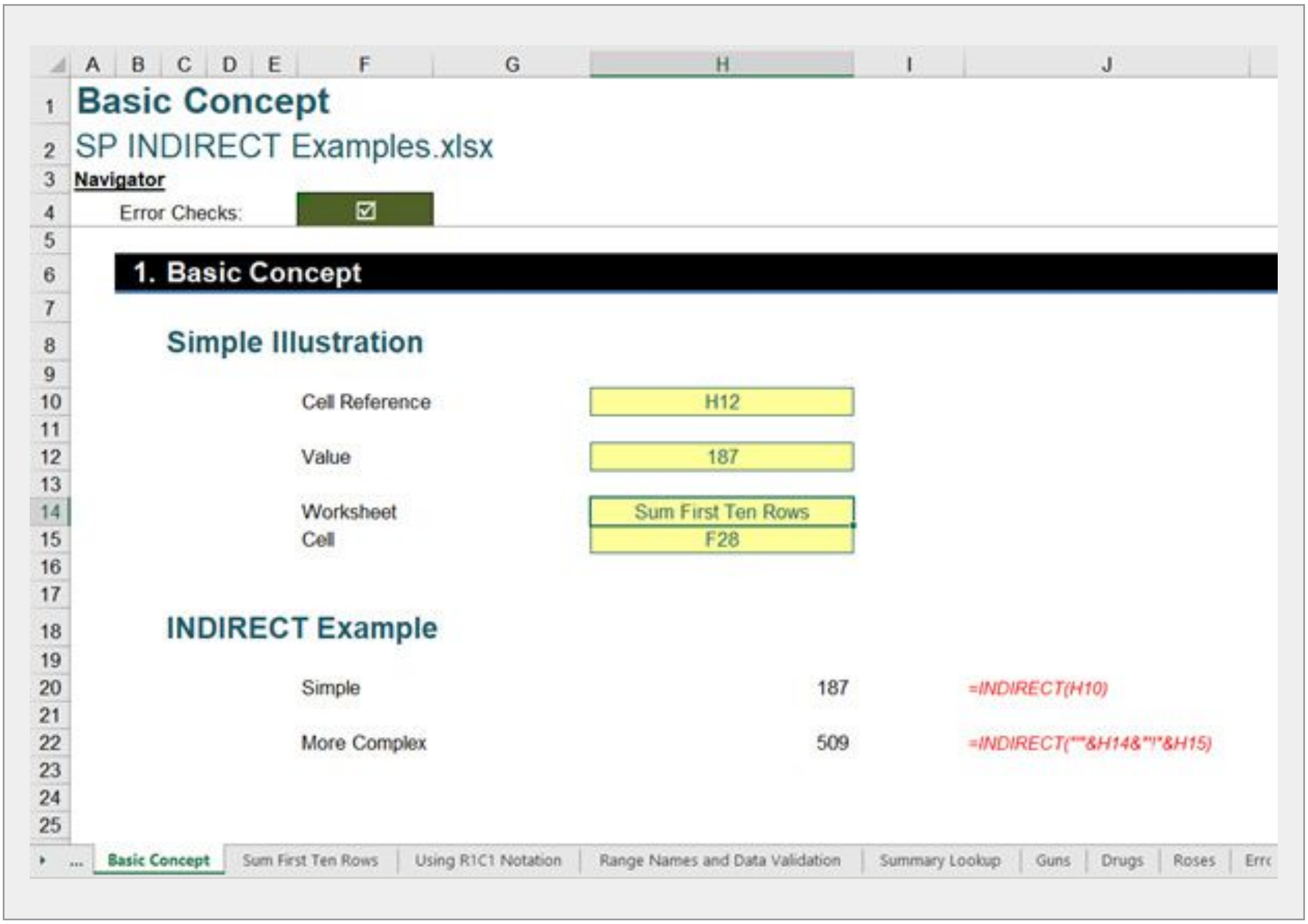


This can work with other calculations, not just date formulas. Overall, the use of dynamic arrays is a powerful tool when building a scalable financial model. By taking advantage of the flexibility and efficiency they provide (eg, range names calculating only once, being able to vary dimension lengths), we can create a model that can adapt to changes in the data and provide valuable insights for the business.

2. INDIRECT function

Another way to scale up the model is by using the INDIRECT function. The INDIRECT function refers to cells indirectly, which means the cell reference is determined by the contents of another cell or formula. Essentially, INDIRECT works as shown in the screenshot "INDIRECT Function Basic Concept".

INDIRECT function basic concept



The formula in cell H12 (showing the value 187) is:

=INDIRECT(H10).

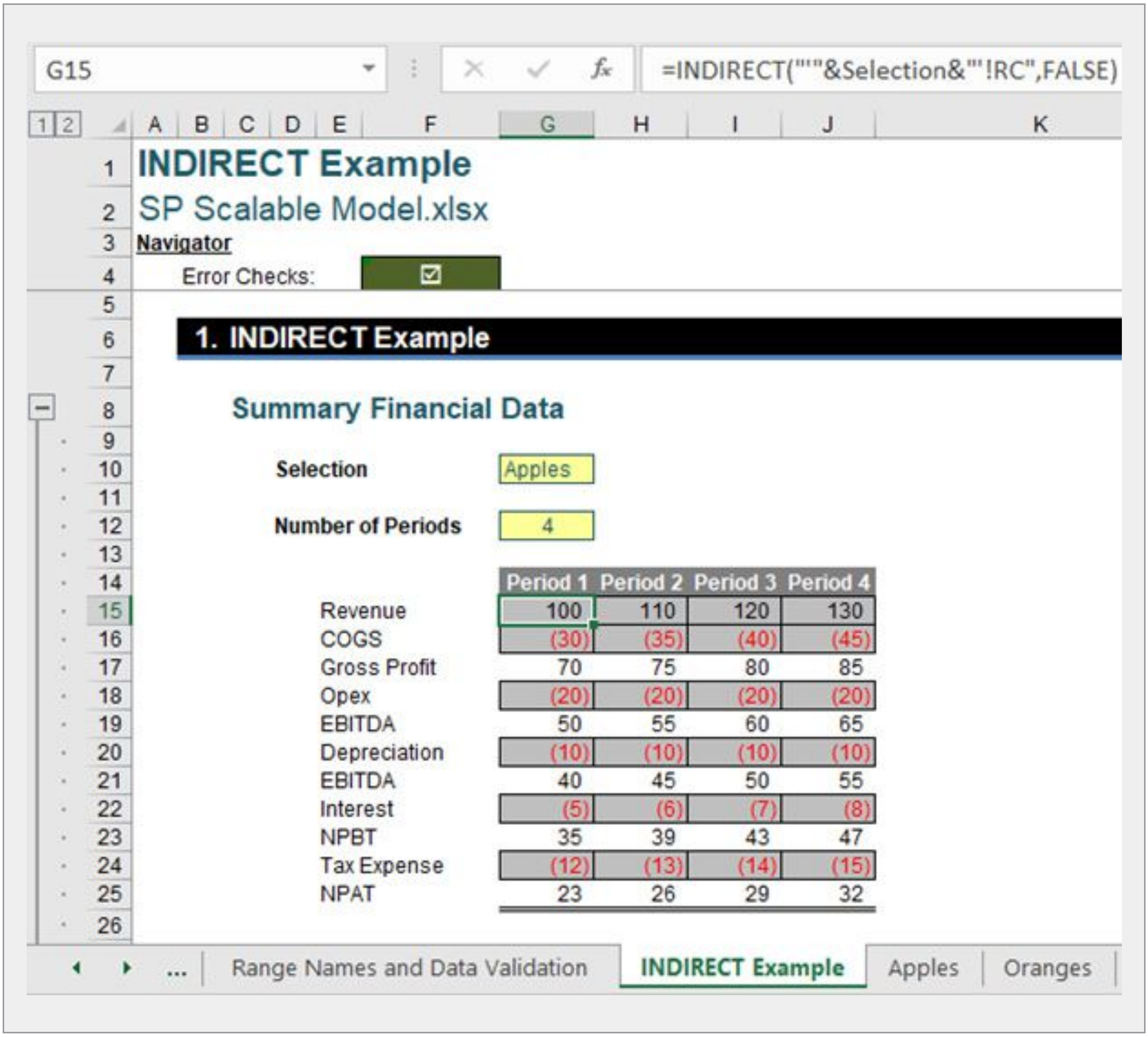
With only one argument in this function, INDIRECT assumes the A1-cell notation (eg, the cell in the tenth row, eighth column is cell H10). Note that the value in cell H10 is H12; this formula returns the value/contents of cell H12, ie, 187. This can be especially helpful when we have a large dataset or a complex model that requires frequent updates.

One way to use the INDIRECT function in a scalable model is to create dynamic references to other sheets or workbooks. For example, we may use the INDIRECT function to reference a sheet name that is stored in a cell, rather than hard-coding the sheet name into a formula. This makes it easier to update the model when we add or remove sheets without having to update the formulas manually.

For example, we have typed our sheet name into cell G10 (given the range name Selection) and we use the following formula to extract the Revenue for the first period of the Apples sheet (using a fruit theme) (see also the screenshot "INDIRECT Example"):

=INDIRECT("'"&Selection&"'!RC",FALSE)

INDIRECT example



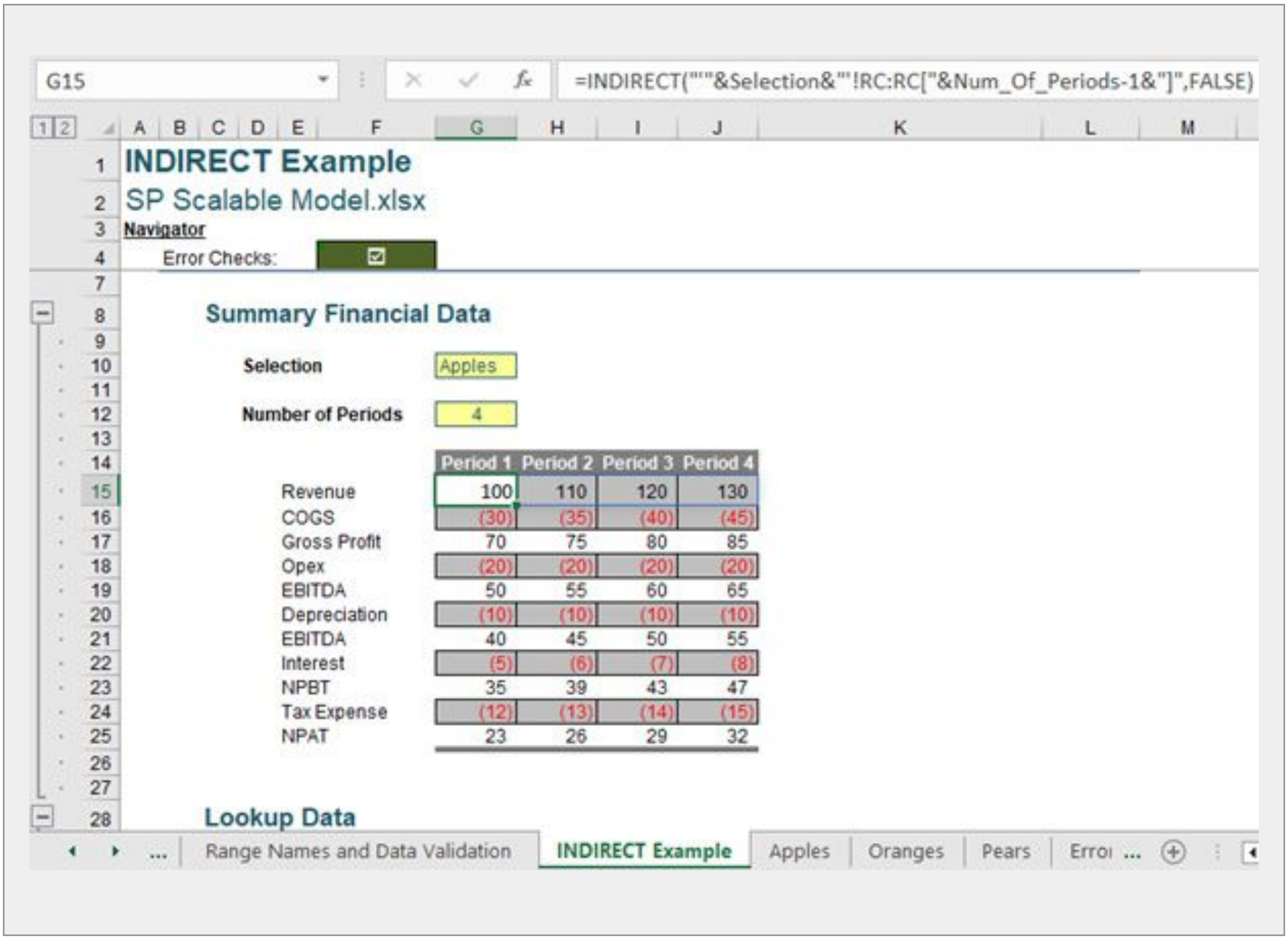
Here, we are using R1C1 cell reference approach, which means this part of the formula "'"&Selection&"'!RC" will refer to 'Apples'!RC, which is the same current cell (G15) but for a different worksheet. The second argument of the INDIRECT function will determine the referencing methodology we use here. Hence, R1C1 will be used here as we set the second argument of INDIRECT to FALSE.

Another way to use the INDIRECT function in a scalable model is to reference ranges that change in size or location. We can use the INDIRECT function to reference a range of cells that is determined by the result of another formula. Using the same previous example, we can add an input called Num_Of_Periods. Then, we will modify our R1C1 reference within the formula to make it into a dynamic array, which gets all four [4] Revenue periods here:

=INDIRECT("'"&Selection&"'!RC:RC["&Num_Of_Periods-1&"]",FALSE)

See the screenshot "INDIRECT Modified Example".

INDIRECT modified example



The part "'"&Selection&"'!RC:RC["&Num_Of_Periods-1&"]" will evaluate to 'Apples'!RC:RC[3], which refers to the same current cell G15 and the three [3] cells next to it, which is the range G15:J15 in the Apples worksheet.

However, it is worth noting that the use of the INDIRECT function can also have drawbacks in terms of performance and stability. In large models with many INDIRECT functions, the calculation time may become significantly longer because Excel needs to evaluate all the indirect references. Additionally, if we change the structure of the workbook, such as renaming or moving sheets, the INDIRECT function may return errors, which can be difficult to debug. It is also a volatile function, which means it recalculates all the time and may be seen as an inefficient use of computing resources.

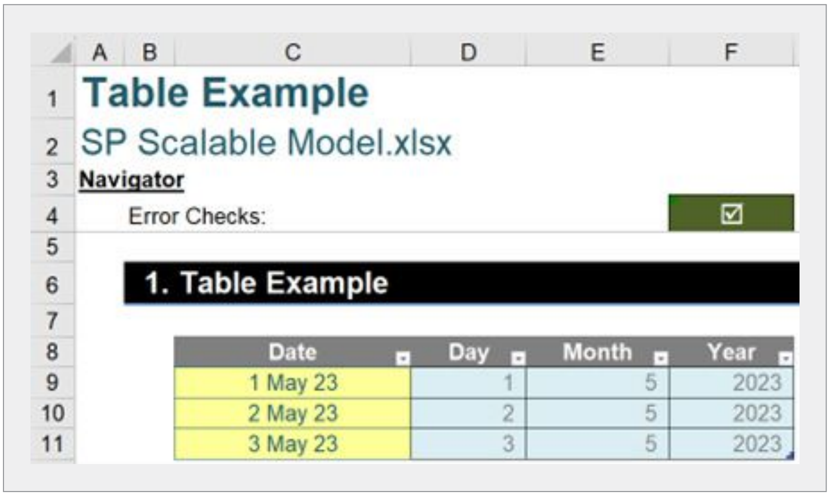
Overall, although the INDIRECT function may be a powerful tool for creating scalable models, it is important to use it cautiously and be aware of its potential limitations and drawbacks.

3. Tables

Tables (Insert -> Table or CTRL + T) represent a powerful feature in Excel that can help to manage data efficiently. They provide many benefits that can help to create a scalable and flexible financial model quickly.

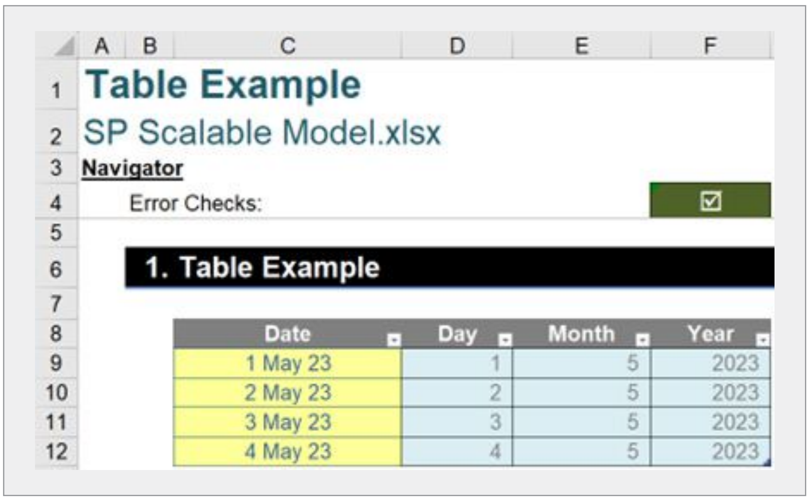
One benefit of using Tables in a model is that it updates/extends/reduces everything automatically. A Table will usually update the format or formula(s) inside the Table when we are adding or removing data. For example, we have a simple Table called "Date" shown in the screenshot "Table Example".

Table example



When we add "4 May 2023" to the cell below cell C11, the Table will update the format accordingly (see the screenshot "Updated Table").

Updated table



This feature helps in creating a scalable model if we want to add more inputs into the model with similar calculation logic.

Besides automatically updating features of Tables, structured referencing (the syntax of Excel Tables) may also assist when creating an Excel scalable model. This feature allows the user to refer to cells in the Table using descriptive names (Table and column/field names) instead of cell references. This makes it easier to write and understand formulas, and it reduces the risk of errors.

For instance, if we create an Excel Table named "Data" when we want to refer to all the data within the Revenue field, we simply type:

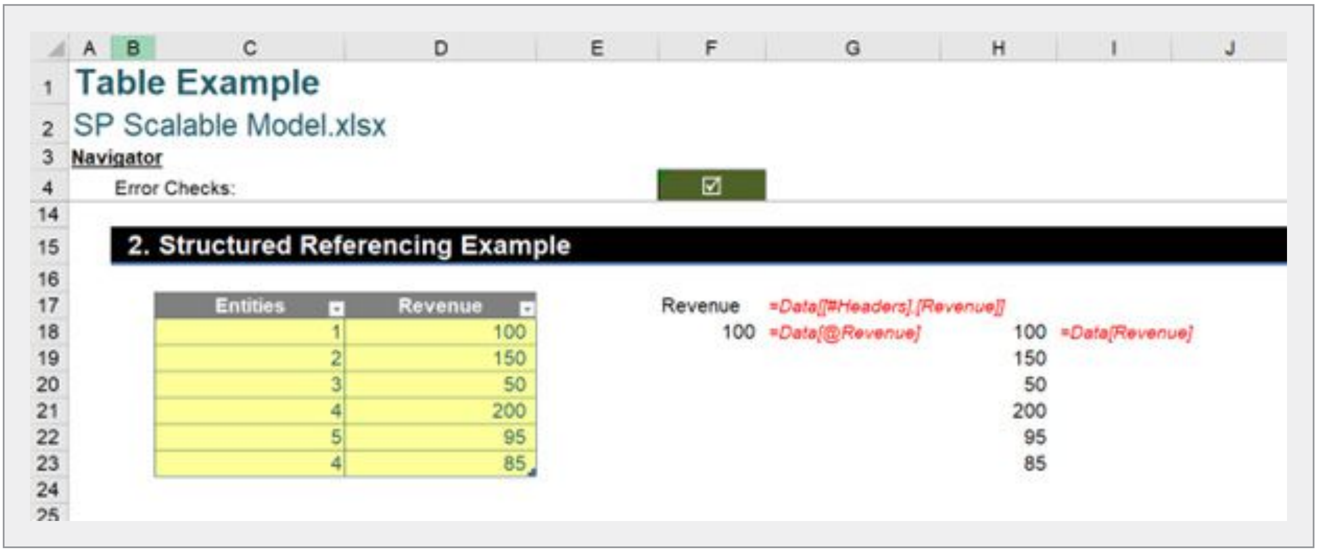
=Data[Revenue]

When we want to refer to the headings of the Table, we use the following formula:

=Data[[#Headers],[Revenue]]

When we want to refer to same row data of the Table, we use the @ symbol (see the screenshot "Structured Referencing Example").

Structured referencing example



We can use Table data in conjunction with either the SUMIFS or SUMIF function to make our model scale dynamically (see the screenshot "Using Structured Referencing and SUMIFS"). For example, we can use the following formulas to calculate the sum of revenue of each entity:

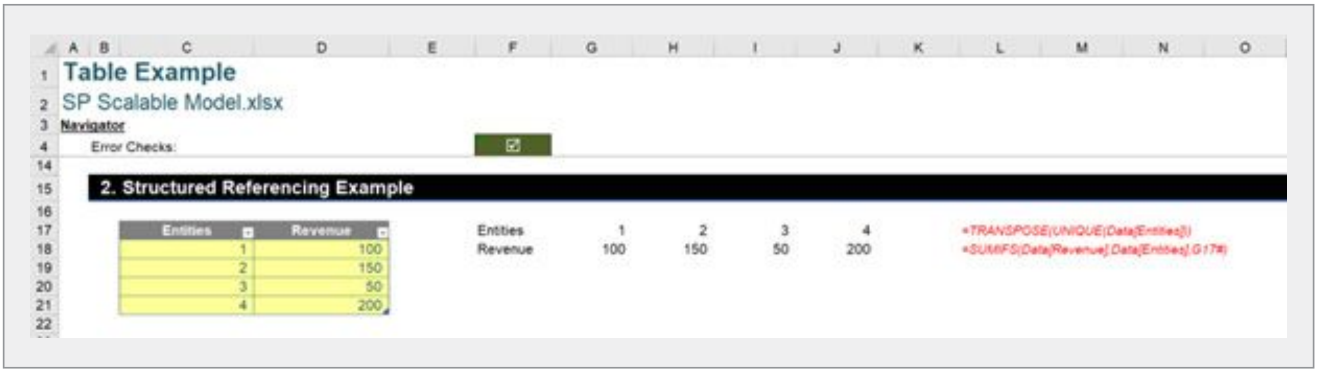
The following formula will generate the unique list of entities:

=TRANSPOSE(UNIQUE(Data[Entities]))

The following formula will sum up all the revenue of all entities:

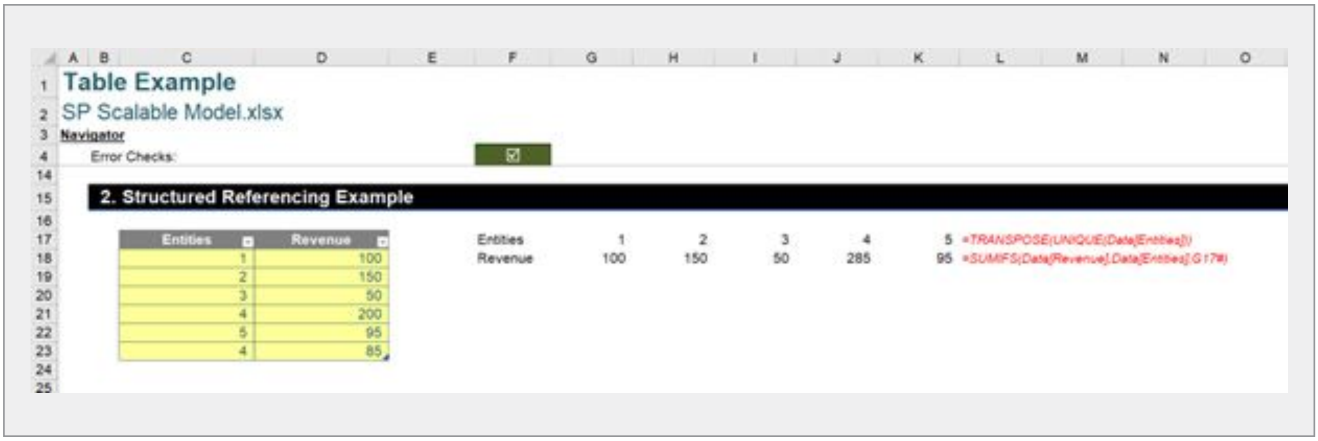
=SUMIFS(Data[Revenue],Data[Entities],G17#)

Using structured referencing and SUMIFS



If we add other entities or another revenue line for existing entities, the model will grab data directly related to these formulas. In the example shown in the screenshot "Extended Structured Referencing Example Using SUMIFS", we have added two [2] more lines.

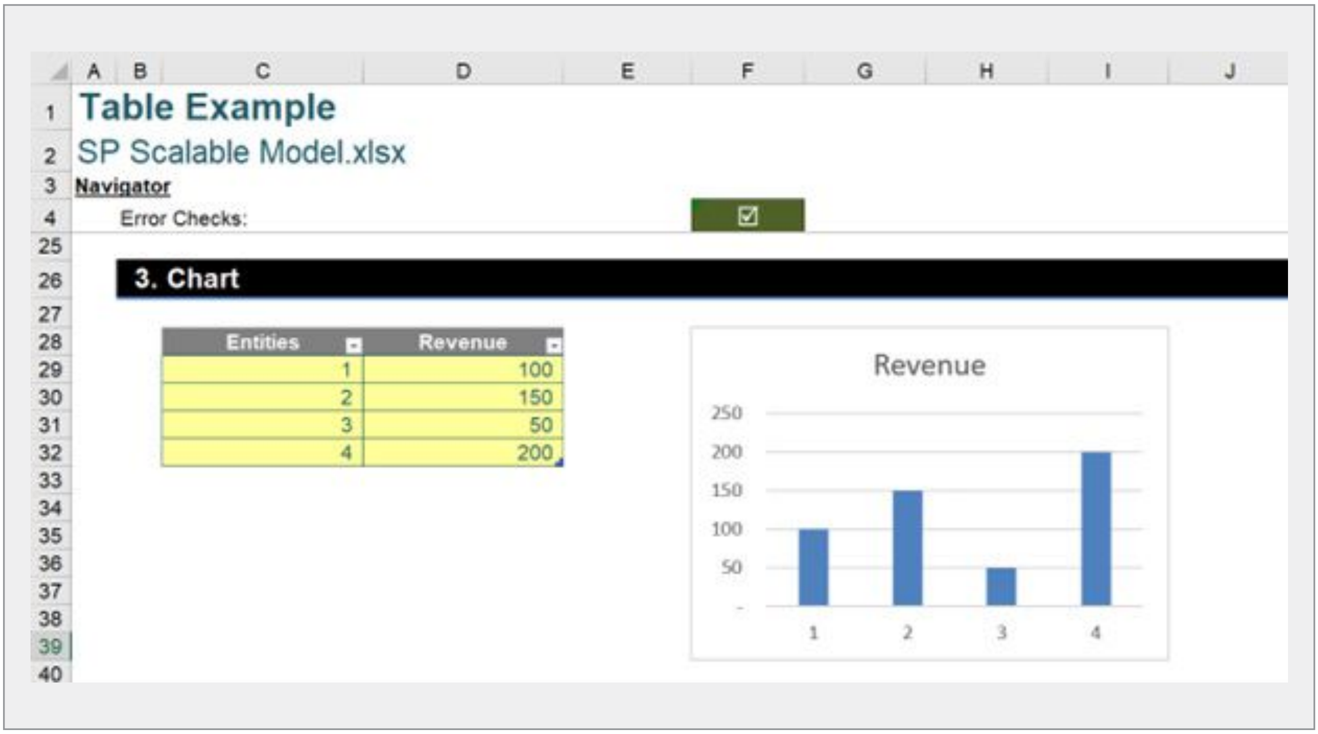
Extended structured referencing example using SUMIFS



Another benefit of using Tables in an Excel scalable model is that they may be used to create dynamic charts. By selecting the Table and inserting a chart, we can create a dynamic chart that automatically updates as we add or remove data from the Table. This makes it easy to visualise changes in data over time and identify trends and patterns.

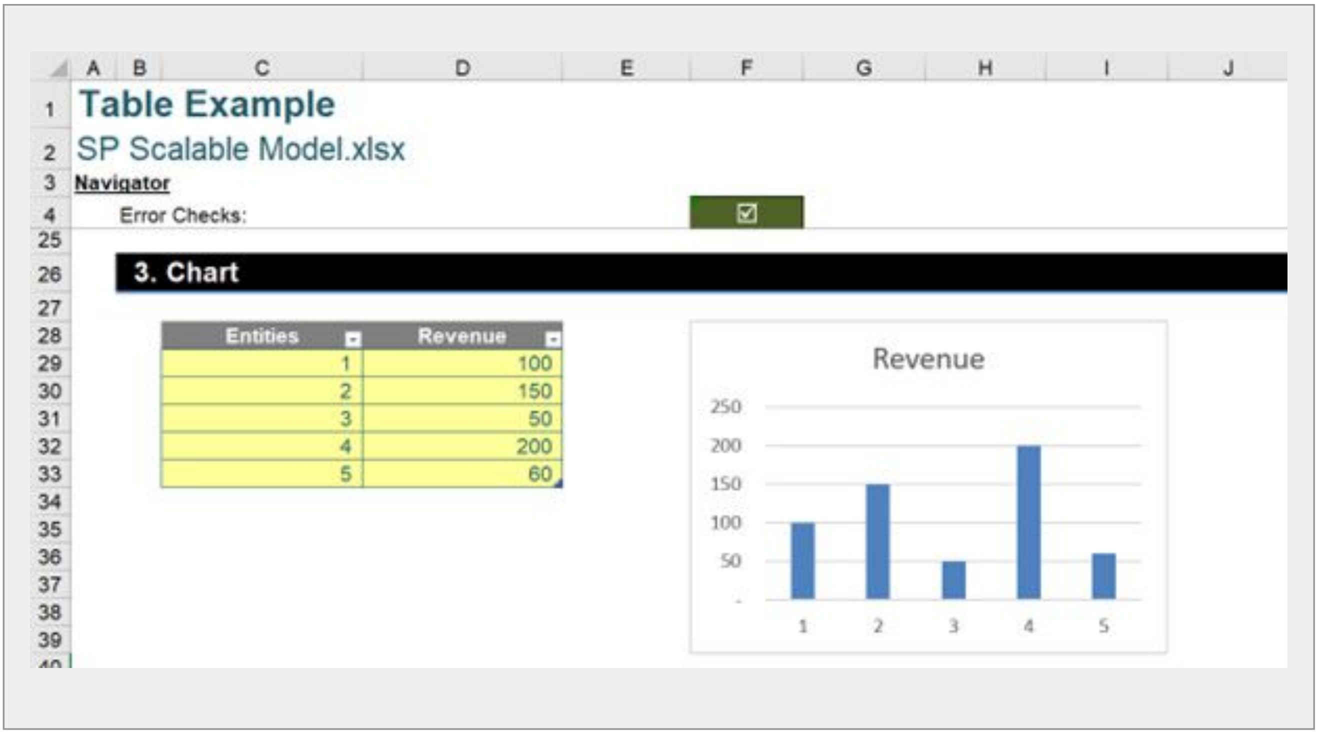
For example, we created a simple bar chart using the Chart_Data Table (see the screenshot "Simple Bar Chart").

Simple bar chart



If we enter new entities in cell C33, we will see that our chart is updated as well (see the screenshot "Updated Bar Chart").

Updated bar chart

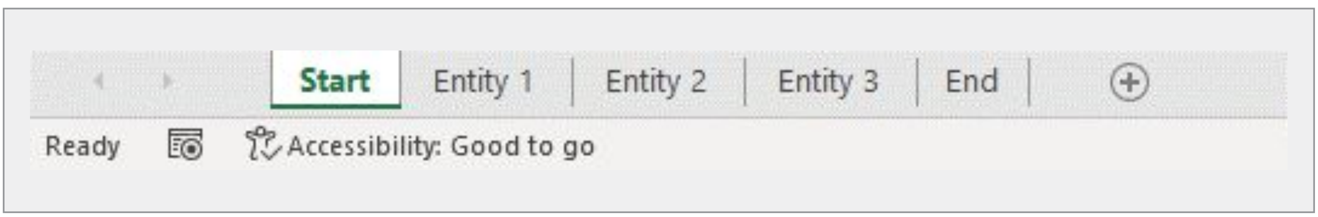


4. Sum across multiple sheets

Excel provides several powerful features to simplify financial modelling. One of the most useful is the ability to sum across multiple sheets. This technique is especially useful when we need to create consolidated financial statements or when we anticipate adding more entities to our model in the future using a template sheet.

To illustrate, let's say we have financial statements for multiple entities in our Excel workbook, with each entity represented by a separate sheet in our workbook (Entity 1, Entity 2, and Entity 3). In these sheets, we set up everything including the assumptions, calculations, and financial statements (outputs) so that every cell location is identical. Before we sum the values across all the entity sheets, we can create a Start sheet and an End sheet that surround the entity sheets and that we keep completely blank. The Start sheet should be the leftmost sheet to the entities, and the End sheet should be the rightmost sheet to the entities (see the screenshot "Multiple Sheets").

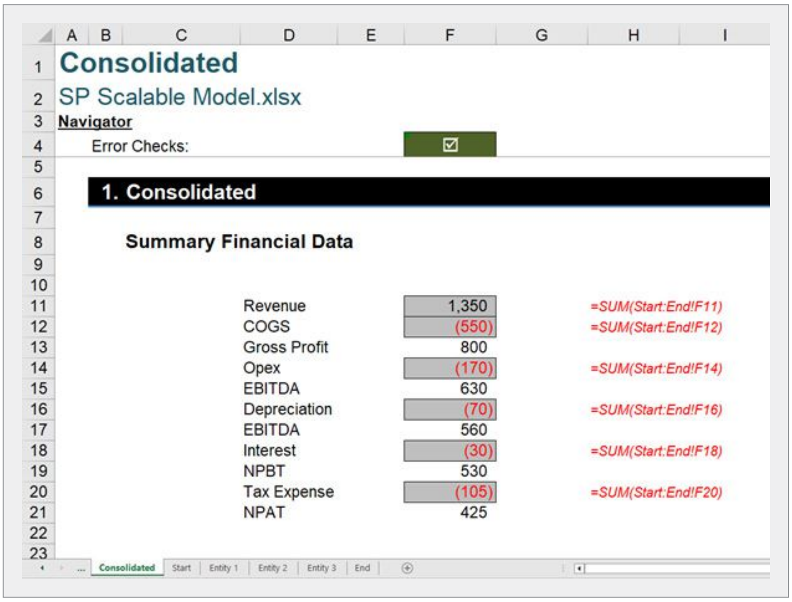
Multiple sheets



If we wish to sum the values in cell F14 on each entity sheet to get the total operating expenditure (Opex) for all entities (see the screenshot "Consolidated Summary Financial Data"), we can use the following formula:

=SUM(Start:End!F14)

Consolidated summary financial data



If we later need to add entities, we can simply put these new entity sheets between the Start and End sheets, and the formula will automatically update to include the new entities (we will need to ensure new entities have the same structure/cell locations as the previous sheets).

5. Reusing components

Sometimes, the modeller may look for parts of the model that can be reused in different sections of the same worksheet, other worksheets, or even different workbooks. These reusable components can include formulas, blocks of formulas, tables, Tables, or named ranges.

For example, we can duplicate the calculation of days receivable into a days payable computation because these calculations are quite similar. Another example may be where a user creates a template sheet and reuses that to help them build the model. There are certainly many ways we can reuse the model. Hence, it is important to model in a certain way to make it easier to reuse the components. One way to achieve that is to step out the calculation into smaller steps, avoiding combining everything into one massive formula, which might make the calculation hard to read or understand, thus reducing the reusability rate of such a formula.

6. Power Query and Power Pivot

A scalable model may become slow when more data is added to the model. Hence, Excel provides two powerful tools — Power Query (Get & Transform) and Power Pivot — to manage the increasing amounts of data.

Power Query allows users to extract, transform, and load one or more data sources into a workbook. If we set up the data transformation process in Power Query, we can automate this transformation process in the future whenever new data is added to the folder. This improves the performance of the scalable model when the data is extended.

Power Pivot is a powerful tool that allows users to deal with large datasets and perform complex calculations quickly. With the proper set-up, you can optimise scalable models that manage large datasets well. This may be achieved by referencing using dynamic arrays, not repeating key calculations, PivotTables, and ensuring datasets are not unnecessarily replicated.

Word to the wise

In summary, a combination of techniques is needed to truly build a scalable financial model in Excel. Dynamic formulas, Tables, reusing components/sections, and using Power Query and/or Power Pivot for large datasets all contribute to a maintainable model that may grow in multiple dimensions. We are conscious that there are more tools, techniques, and tricks other than those mentioned here — so happy exploring. ■

Liam Bastick, FCMA, CGMA, FCA, is director of SumProduct, a global consultancy specialising in Excel training. He is also an Excel MVP (as appointed by Microsoft) and author of Introduction to Financial Modelling *and* Continuing Financial Modelling. *Send ideas for future Excel-related articles to him at liam.bastick@sumproduct.com. To comment on this article or to suggest an idea for another article, contact Oliver Rowe at Oliver.Rowe@aicpa-cima.com.*

INSTITUTE NEWS

AICPA & CIMA sign China MoUs

In January, AICPA & CIMA, together as the Association of International Certified Professional Accountants, formalised their collaboration with the China Europe International Business School (CEIBS) through the signing of a memorandum of understanding (MoU) at the CEIBS Shanghai Campus. The areas of collaboration include:

- **Joint research initiatives:** Collaborative efforts in conducting research projects, surveys, and studies focused on management accounting and finance.
- **Curriculum enhancement:** Development of specialised curriculum modules and educational programmes integrating global accounting standards and practices.
- **Professional development:** Offering joint workshops, seminars, and training sessions to enhance the skillsets of accounting professionals.

Also, in November, AICPA & CIMA signed strategic MoUs with Shanghai Advanced Institute of Finance (SAIF), Shanghai Jiao Tong University, and the Pudong Institute of Finance (PIF) in Shanghai.

Andrew Harding, FCMA, CGMA, chief executive–Management Accounting at AICPA & CIMA, (right) and Zhang Weijiong, vice-president and co-dean, and professor of strategy at the China Europe International Business School, sign an MoU in Shanghai in January.

China CGMA Annual Awards

Winners of the China 2023 CGMA Annual Awards were announced in November. The awards have been held in China since 2005 to recognise the excellence and innovation in management accounting and to showcase top talent. The ceremony in Shanghai also included presentations to new CIMA members, and the event was combined with the annual CFO Forum.

MoU with Ghana Institute of Management and Public Administration

AICPA & CIMA, together as the Association of International Certified Professional Accountants, have signed a memorandum of understanding (MoU) with the Business School at the Ghana Institute of Management and Public Administration (GIMPA) to offer the CGMA Finance Leadership Program to its current business, finance, and accounting students and to alumni who graduated from the institution in the past five years.

The agreement will enable GIMPA Business School students and alumni to start their CGMA journey at the appropriate level, building on their existing educational and professional achievements.

Academic research projects update

Following the 2023 global call for research proposals on the topic of "Management Accounting and Control: Approaches to Building Organisations Driven by Technology and Sustainability", the CIMA General Charitable Trust has awarded grants for these research projects:

- Co-creation With Artificial Intelligence: An Experimental Investigation on ChatGPT Type Technology, Jasmijn Bol, Ph.D., professor, Tulane University, New Orleans, US.
- Socio-cognitive Drivers of the Intended Use of Digital Technologies by Finance Managers in Industry, Breda Sweeney, Ph.D., professor, University of Galway, Ireland.
- Integrating Environmental Sustainability Into Management Accounting: A Collaboration With DP World, Rakesh Jory, Ph.D., associate professor, University of Southampton, UK.
- Algorithm Aversion in Investment Decisions, Tom Gubini, research assistant, Ruhr-Universität Bochum, Germany.
- Bridging the Gap: The Role of Management Accountants in Cybersecurity Risk Management, Zhongtian Li, Ph.D., senior lecturer, University of Newcastle Australia.

Former CIMA chief executive receives IFAC award

Charles Tilley, OBE, FCMA, CGMA, FCA, a former chief executive of CIMA, has been awarded the International Federation of Accountants' (IFAC) 2023 Global Leadership Award. The award celebrates individuals for their unparalleled contributions to the worldwide accountancy profession.

Tilley helped to orchestrate a partnership culminating in the formation of the Association of International Certified Professional Accountants (comprising AICPA & CIMA) and the inception of the CGMA designation.

He said: "Over a 50-year accountancy career including partnership at KPMG and investment banking CFO roles … I am pleased to have contributed to [the profession's] development.

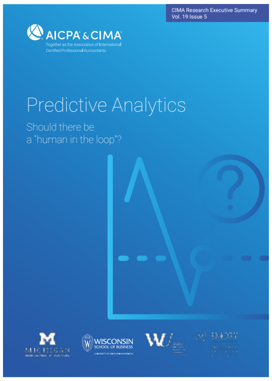
"It has a critical role and needs to remain dynamic and responsive to the ever-changing needs of business and society."

Tilley's further achievements include development of the Integrated Reporting Framework and the conception of the International Integrated Reporting Council (IIRC) — he later became CEO of the IIRC. He oversaw the merger of the IIRC and the Sustainability Accounting Standards Board (SASB) into the Value Reporting Foundation, which was subsequently integrated into the IFRS Foundation.

TOP LEFT: PHOTO BY ADELA STEFAN/500PX/GETTY IMAGES; BOTTOM RIGHT: PHOTO COURTESY OF CHARLES TILLEY

AICPA & CIMA's Contemporary Issues in Management Accounting series

Two research executive summaries have recently been published in the series of academic research supported by CIMA. They are:



Predictive Analytics: Should There Be a "Human in the Loop"?, based on research undertaken by a team from WU Vienna, Austria, and, in the US, the University of Michigan, the University of Wisconsin, and Emory University. It provides insights on the use of predictive analytics in business. Based on data from a large US-based automotive parts retailer, it shows how integrating human expertise and predictive analytics can produce superior outcomes. See also the *FM* article "How Human Intervention Can Improve Predictive Analytics' Performance".

Integrating the SDGs Into Capital Investment Decisions: A Four-Step Process follows research undertaken by a team from the Istituto di Management, La Scuola Superiore Sant'Anna, Pisa, Italy, and Dipartimento di Management, Università Politecnica delle Marche, Ancona, Italy. The project proposes a practical solution for companies that want to become more sustainable by integrating the UN's Sustainable Development Goals (SDGs) into their capital investment decisions.

The researchers identified that most tools for assessing return on investment rely solely on financial indicators, not on broader measures of worth, such as environmental impact or social equity.

Additionally, the most common evaluation and reporting frameworks that do incorporate nonfinancial indicators tend to target shareholders looking to invest in entire companies; typically, they do not address companies' looking for ways to embed the SDGs into their capital outlays and other expenditure.

To tackle this problem, the researchers worked with a group of companies to develop a broader investment evaluation tool. The result is a co-developed, four-step process for evaluating decisions about a company's capital investments against the SDGs.

3 report briefs on sustainability- and nature-related disclosures

AICPA & CIMA's sustainability and business thought leadership programme assists finance professionals as they provide leadership to their organisations when considering sustainability issues and how to integrate them into long-term decision-making. Three new briefs summarising recent sustainability frameworks and standards have been added to the series.

When the IFRS sustainability standards S1 and S2 came into effect in January 2024, AICPA & CIMA released resources to enhance members' understanding of the new standards. The resources include two report briefs summarising outputs from the International Sustainability Standards Board (ISSB).

- IFRS S1 General Requirements for Disclosure of Sustainability-Related Financial Information; and
- IFRS S2 Climate-Related Disclosures.

Written from a management accounting perspective, the briefs answer five questions:

- Why are sustainability-related disclosure standards needed?
- How were the IFRS S1 and S2 standards developed?
- When is reporting under IFRS S1 and S2 required?
- What are the general requirements of IFRS S1 and S2?
- Who will encounter the IFRS S1 and S2 requirements?

Also, the Taskforce on Nature-Related Financial Disclosures (TNFD), formed in June 2021, released recommendations and supporting guidance in September 2023. AICPA & CIMA have released a summary brief designed to enhance members' understanding of the new recommendations framework: Task Force on Nature-Related Financial Disclosures (TNFD).

With nature disclosure made mandatory within the EU from January 2024, through the Corporate Sustainability Reporting Directive (CSRD) and European Sustainability Reporting Standard (ESRS) E4, *Biodiversity and Ecosystems*, the TNFD recommendations provide finance professionals with valuable tools to build their nature literacy.

In memoriam

Fred Blakeway, FCMA, CGMA, who was awarded the CIMA silver medal in 1996 for his 50 years of service as a CIMA volunteer, died in December at the age of 95. His service to CIMA included being branch president and serving for 35 years as honorary branch secretary of CIMA's Birmingham and District Branch, and seven years as honorary secretary for the branch's student committee.

TOP RIGHT: IMAGE BY ANDRIY ONUFRIYENKO/GETTY IMAGES

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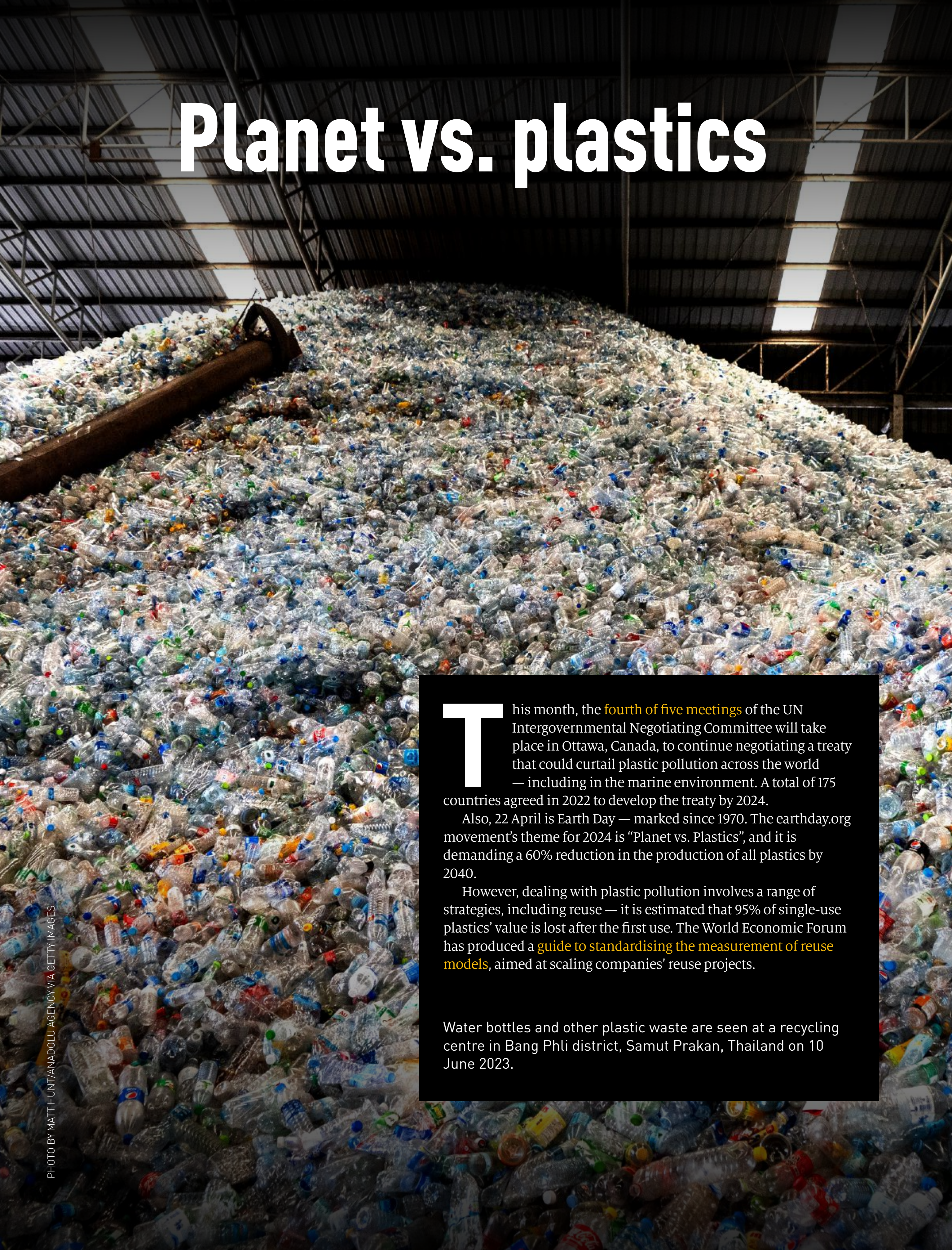
Planet vs. plastics



This month, the fourth of five meetings of the UN Intergovernmental Negotiating Committee will take place in Ottawa, Canada, to continue negotiating a treaty that could curtail plastic pollution across the world — including in the marine environment. A total of 175 countries agreed in 2022 to develop the treaty by 2024.

Also, 22 April is Earth Day — marked since 1970. The earthday.org movement's theme for 2024 is "Planet vs. Plastics", and it is demanding a 60% reduction in the production of all plastics by 2040.

However, dealing with plastic pollution involves a range of strategies, including reuse — it is estimated that 95% of single-use plastics' value is lost after the first use. The World Economic Forum has produced a guide to standardising the measurement of reuse models, aimed at scaling companies' reuse projects.

Water bottles and other plastic waste are seen at a recycling centre in Bang Phli district, Samut Prakan, Thailand on 10 June 2023.

PHOTO BY MATT HUNT/ANADOLU AGENCY VIA GETTY IMAGES

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