FM
Financial Management

Driving innovation in management accounting | June 2024

GENERATIVE AI RISKS

What finance leaders need to know

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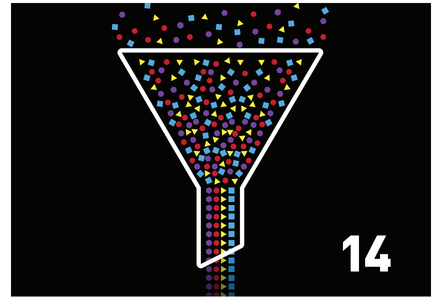

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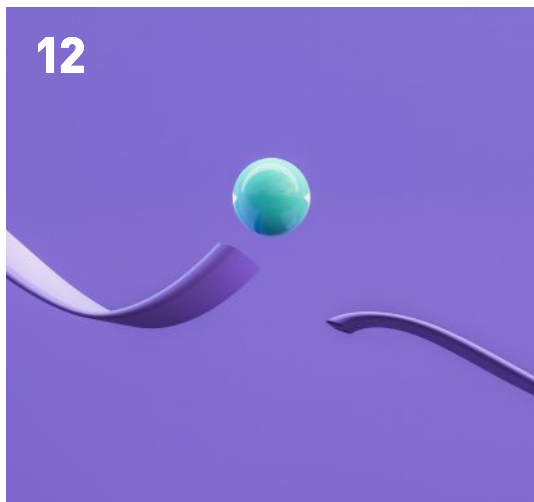

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SARAH GHOSH, FCMA, CGMA

Reflections on my term

'We are living through a revolutionary period.'

Last year, I was elected as the 90th CIMA president, the fourth female president of the Institute, and the eighth co-chair of the Association of International Certified Professional Accountants. Association Chair Okorie Ramsey and I set out three goals we wanted the Association to focus on during our terms:

- Driving innovation across the profession.
- Increasing public trust in ESG and sustainability.
- Creating an inclusive profession where everyone is treated equitably.

I called on the profession to make progress in these areas, and I am delighted we have done that and made a real difference.

So let me describe each of these three areas in more detail.

Driving innovation

There is no question that we are living through a revolutionary period in the power of digital technology. Artificial intelligence and quantum computing are on the cusp of radically increasing the analytical power of the finance team, and we need to prepare for that. Throughout my term as president and Association co-chair, I have been engaging in conversations with stakeholders to highlight the possibilities and risks technology poses for the profession.

I firmly believe that if we seize the future and embrace the opportunities of the digital revolution, our profession has a bright future. To prepare for that future, AICPA & CIMA carried out extensive research for the Future of Finance 2.0 project and its reports. These are vital resources for any member looking to upskill themselves and position themselves as a digital leader.

Increasing public trust in ESG and sustainability

ESG and sustainability are now increasingly central to business strategy, with sustainability reporting fast becoming the lens through which organisations are being judged by investors, regulators, and wider society. Our profession is driving trust, stability, and assurance in the corporate responsibility space.

To meet this challenge, I am delighted that, in partnership with the University of Oxford's Saïd Business School, we launched an executive management certificate programme in sustainability for accounting and finance professionals. It equips mid- to senior-level accounting and finance professionals with the skills and knowledge they need to navigate the ESG landscape, and it has proved very popular. I found this course particularly enlightening, and I hope many others will, too.

AICPA & CIMA also released a further brief in the Sustainability and Business series, *Accounting for Climate Resilience*, and launched the Sustainability and Business Toolkit, which includes free resources and tools to navigate the sustainability landscape.

Creating an inclusive profession

Having worked in several industries and sectors, I have witnessed the impact of initiatives that have focused on increasing representation of previously under-represented groups. I'm glad that AICPA & CIMA are playing their part, including supporting International Women's Day by highlighting some of the many great examples of women powering ahead in our profession.

I also enjoyed speaking in November at the AICPA & CIMA Women's Global Leadership Summit, and I encourage you to book a place at this year's summit. I think these events are incredibly useful, both in terms of networking and hearing from speakers who can share their experiences and help a new generation of women build fulfilling and successful careers.

I firmly believe that AICPA & CIMA are in a strong position to continue to support members as they guide the organisations they serve on to greater success. It has been an honour and a pleasure to serve you as CIMA president and Association co-chair, and I wish you and my successors the best for the future.

KEEP IN TOUCH

Follow me on X (formerly Twitter): @CIMA_President #SeizeTheFuture

PHOTO BY BARNEY JAMES/TIMELESS PICTURES

Innovate to thrive

By Andrew Harding, FCMA, CGMA

Management accounting has always been a dynamic and evolving profession. It can trace its beginnings back to the need to control costs in the large companies that had developed in the late 19th and early 20th centuries. That is why the Institute of Cost and Works Accountants (the body that is now CIMA) was formed in 1919.

From cost accounting, the profession expanded into the management of companies' capital and assets, as businesses sought further competitive advantage through running ever more efficient operations. The name change in 1972 to the Institute of Cost and Management Accountants reflected that evolution.

Management accountants' role has grown and now encompasses the use of a vast range of performance data across many business areas. It is an indispensable function within modern organisations.

This process of evolution does not stop. We are living through a period when the number of business functions calling on our expertise is growing fast. At the same time, the power of the tools available to us is increasing exponentially, opening up huge scope for more innovation.

Let me give you a couple of examples to show why this is such an exciting moment in time for us.

Value and sustainability

The latest research by the International Federation of Accountants and AICPA & CIMA found that the largest global companies are providing more detail and breadth in their sustainability reporting and are obtaining a greater level of assurance on these disclosures. Embedding sustainable practice in a meaningful and useful way, and using quality metrics to guide strategic decision-making, is providing a new opportunity for management accountants to create value for their organisations.

To equip you with the skills and knowledge to thrive in this new field, AICPA & CIMA have produced the Accounting for Climate Resilience brief and the Sustainability and Business Toolkit. This includes free resources and tools to help organisations navigate the sustainability landscape.

Innovation and digital technology

Today's technological revolution will completely change the world of work. Advances in automation and artificial intelligence (AI) will put an unprecedented level of analytical power at our disposal, which opens up new ways for us to add value.

This transition will also bring many challenges, and finance teams will be at the forefront of addressing them. We will play a leading role in both the adoption and, importantly, the governance of technologies like generative AI — leveraging our unique position within organisations to drive process improvements and analytics enhancements. Our Future of Finance 2.0 project is a valuable resource which explores these themes in depth.

The opportunities presented to us by the shift to sustainable business practices and the need for digital transformation require us to adopt a spirit of innovation. Management accounting has always thrived by seizing new opportunities to guide organisations to new heights. This remains a core part of our DNA and an imperative for the profession's continued evolution and success. ■

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

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What CFOs need to know about gen AI risk

As businesses increasingly use generative AI, CFOs need to consider risks that include data security, financial, intellectual property, reputational, and more.

By Andrew Kenney

AI-GENERATED IMAGE BY YUSAFADI/ADOBE STOCK

Generative AI has potential for many capabilities — such as having conversations, analysing documents, writing memos, and providing advice on solving interpersonal problems. These are all in response to plain-language prompts from the user. At the same time, though, the technology's inner workings remain poorly understood. And when it fails, it often does so in bizarre and unpredictable ways. Those errors can disrupt workflows, frustrate users, and even result in factual errors and "hallucinations" that could mar a company's work product or reputation.

For example, in February, the generative AI tool ChatGPT started acting strangely. According to IT news and reviews website Ars Technica, when one person asked if dogs can safely eat cereal, ChatGPT replied, "Always consider the makings of any food nabs from the chug can to your hounds' refigure, as even non-toxic or small fang to hound-mark bitsy can weave into skin-speaks, dance or merryl, as waters to wave to a listen and care from you."

The incident was resolved within a matter of hours, and ChatGPT abandoned its bizarre ramblings and returned to normal. But it was a stark reminder that, for all its promise, generative AI is a work in progress.

"Generative AI is still not at the maturity level yet. It's still evolving. It's evolving at a very rapid scale — and it's being adopted at a very rapid scale as well," said Keheliya Amarasinghe, ACMA, CGMA, manager, IT business partnering, at Fortude, where he has helped to implement generative AI tools at the Brandix Group of apparel companies in Sri Lanka.

This contrast poses a conundrum for CFOs and other business leaders. Will they embrace generative AI's potential for increasing efficiency and extending the cognitive power of workers? Or will they err on the side of caution, waiting for the technology to develop further?

In interviews with *FM* magazine, finance leaders around the world shared their insights about the risks of emergent AI technology and the specific mitigation strategies they're using as they step into this new technological era.

To invest or not? Contrasting views

Research on AI has been underway since the 1950s and earlier, with scientists trying for decades to imbue computers with the ability to reason, solve problems, and communicate more naturally with humans. Businesses have used forms of the technology for some years, especially for automating processes and deriving deep insights from huge pools of data. But it's the latest evolution, generative AI, that has delivered some of the fastest and most broadly accessible advances.

Text-based generative AI agents like ChatGPT are based on a type of machine learning known as large language models (LLMs). LLMs are trained on large data sets of text and are capable of understanding human prompts and then generating natural language text, code, and translations in response.

LLMs can enable tools such as ChatGPT to create responses such as delivering custom-tailored advice about a financial question, generating a memo to the user's specifications, or working through a wide set of other use cases, though the technology is still developing and can make errors and mistakes.

The technology "can read in between the lines … [And] that is extremely powerful," said Haz Hubble, ACMA, CGMA, the co-founder and CEO of Pally, a UK-based startup that aims to use generative AI to improve people's human relationships.

LLM-based technology is already accessible to the public at little or no cost through freestanding consumer tools like ChatGPT. But it is also increasingly integrated into existing ERM systems and other business software, as well as into the platforms of tech giants like Microsoft and Google.

The public rollout of generative AI only began in earnest in 2022, but it has already seemed to reach all corners of the business world. The pressure for organisations to invest is growing by the day.

"It's only a matter of time before every tool is an AI tool," suggested Hubble, who is one of the youngest people to ever obtain the CGMA designation. "So it's not a question of yes or no, it's a question of which tools and how much you should invest."

But the answer to that question will differ with each company, Hubble said. And, for some, there are still too many unknowns.

"I think if not today, within the next three to five years, it will be revolutionary," said Salauddin Ahmed, ACMA, CGMA, the head of decision support and performance management at Bangladeshi telecom Banglalink. "It's not that we are ignoring it, we are adopting it, but we are going slow. We are seeing what's happening, seeing the risk factors."

Whether they're moving quickly or cautiously, finance leaders agree on one thing: It's time to assess the specific risks and responses for their company's AI strategy (see also the sidebar "CFOs' Checklist for AI Projects").

Data security and privacy risks: Is your information safe?

One of the most common fears amongst business users is that a generative AI tool will inadvertently compromise an organisation's data security and privacy. In particular, they worry that an employee will upload internal or client data into the tool — only to see the platform share that information with other users, either inadvertently or as a result of a malicious attack.

"That is a massive concern," said Mirenna Larisa Calimache, ACMA, CGMA, generative AI lead for Deloitte's AI Institute. "This technology doesn't necessarily keep guardrails or help you protect your data if you put it out there."

Deloitte is responding by redirecting employees away from off-the-shelf generative AI products.

"We have restricted our employees from using ChatGPT in their work," she explained. Instead, Deloitte has created its own implementation of the technology.

"We wanted to democratise it — we wanted to give people the ability to leverage generative AI, but in a safe way. That's why we've developed our own platform," she said. According to Calimache, once Deloitte employees have completed training on it, they can use the proprietary in-house platform for many of the same purposes ChatGPT is used for. However, they are not permitted to input client data into it.

Companies have several options to control their data while using generative AI, including a custom-developed solution, perhaps based on open-source software, or an enterprise-scale product from a third-party provider, said Ryan Hittner, a New York-based principal and global AI specialist leader for Deloitte. Companies such as Microsoft and Google are developing generative AI products that promise to draw on corporate data while maintaining security and privacy.

No matter the specific solution, "the primary interest is in finding a way to create a virtual sandbox and make sure that employee prompts stay private, because obviously when we use it for our jobs, we likely utilise private and confidential information within those prompts," Hittner said.

Operational risks: Mistakes and errors

Generative AI can seem almost human in its ability to respond to a wide variety of challenges and conditions. Unfortunately, it also has another human tendency: It can err. It can even fabricate falsehoods.

For example, ChatGPT has grabbed attention by making astute medical diagnoses based on descriptions of symptoms. But a recent study of various LLMs' responses to medical questions found they frequently fabricate sources of information and make statements that aren't supported by their citations.

The technology companies behind these tools, including ChatGPT maker OpenAI, have raced to reduce these kinds of errors. But the very real concern remains that people will become over-reliant on AI and perhaps let a fatal error slip into an important document.

It's an issue that Tankiso Moloi, FCMA, CGMA, Ph.D., has been tackling as a professor and academic director at Johannesburg Business School in South Africa. Students have quickly adopted tools like ChatGPT and used them for papers and other work — often with little regard to the pitfalls.

"I don't know what is inside that black box. I don't know what is crunching these numbers. And it could be giving me the wrong numbers for all I know. But they look sensible to me because I trust this technology," Moloi said of the students' approach.

The school has responded by using tools to detect AI-generated content and warning students of disciplinary action for misuse of the tools. But Moloi also says it's important to explain how to use AI responsibly — acknowledging its use, checking its work, and knowing its limits.

"It's been quite an interesting journey," he said.

There is a consensus among the experts who talked to *FM*: Whether or not they're embracing AI, companies need to set rules and training policies about its use.

"How flexible you want to be with those policies depends on the culture of your company, but I think making expectations clear is important," Hubble said.

Organisations "need to train their employees, so that even if they get some help from AI tools, they need to do a review. They need to put tick marks on a list," Ahmed said.

Hittner and Calimache from Deloitte also stressed the importance of human oversight.

"No technology is going to do all of the work for you. You have to make decisions, you have to improve the content, you have to make sure it's accurate and without bias," Calimache said.

Deloitte is emphasising that generative AI is best used in the initial phases of drafting and organising work, Hittner said.

"I think some of the most effective controls right now are the human layer review," he said.

Similarly, in Sri Lanka, Amarasinghe's employer has required all employees to complete a LinkedIn course on the ethical use of generative AI.

The message, he said, is: "We are implementing this tool for you, but you need to make sure that you avoid these certain risks as well."

Financial risks: Overinvestment for under-performance?

The costs of generative AI projects can vary widely. Companies dabbling with Google or Microsoft enterprise tools might pay a relatively modest $30 per user per month, while a more intensive custom software project can range into the hundreds of thousands or millions.

At the Brandix Group, Amarasinghe is leading the finance transformation team. Brandix was the only company in Sri Lanka to be part of the early access programme for Microsoft's Copilot package of generative AI tools.

"We are going to go heavy and invest more in it and see how it can benefit us in the future. Right now, apart from Copilot, we have developed our own internal generative AI-driven chatbots and are in the process of integrating [them] with most of our internal systems," he said. But even so, Amarasinghe cautions other

CFOs' checklist for AI projects

1. **Data security risks:** Use sandboxed or in-house AI solutions to safeguard sensitive data. Train employees on secure data handling practices and restrict the use of consumer-grade AI tools in work processes.
2. **Personnel risks:** Conduct change management programmes to address concerns amongst employees. Facilitate workshops, reverse mentorships, and hack-a-thons to increase AI literacy and foster a culture of innovation. Set clear policies for how people may use AI and which tools they may access.
3. **Operational risks:** Ensure human oversight to catch AI errors. Controls can include specific procedures for reviewing AI work produced, as well as training on using generative AI.
4. **Reputational risks:** Develop and adhere to an ethical AI framework. Publicly disclose AI use policies to build trust with consumers, clients, and the public.
5. **Legal and intellectual property risks:** Consult with legal experts to navigate the evolving AI regulatory landscape. Use AI tools that ensure compliance with intellectual property laws.
6. **Financial risks:** Start with cost-effective AI tools and gradually invest in custom solutions based on clear use cases. Evaluate the ROI of AI projects regularly.
7. **Competition risks:** Stay informed about AI advancements in your industry to maintain a competitive edge. Make space for people to experiment with new technology.

finance leaders to think carefully before plugging into an intensive generative AI project.

"They shouldn't just go with the trend," he said. "You need to have your problem identified. Why are we doing this? Why are we investing in our digital AI, too? What is the expectation from this? Because sometimes, such a heavy investment might not make sense."

Generative AI has such a wide range of applications that it can be difficult to predict exactly how a company will best use it. Amarasinghe suggested beginning with a limited investment and an experimental mindset and then expanding once results show.

For example, Brandix is seeing how a group of power users engage with Microsoft Copilot before deciding about a larger deployment. So far, those users have employed Copilot to create content such as automated meeting minutes, action items, and email summaries to help streamline strategic decision-making, Amarasinghe said. But more intensive tasks, such as tapping into the company's sizable data lakes, could require a much greater investment, which the company is now moving towards.

Other risks: Employee resistance and reputational damage

The decision to embrace AI tools of any kind comes with the risk of controversy and negative reactions.

Internally, employees may fear that they're being replaced. Or they may not understand the technology, leading them to avoid using it.

It calls for careful change management — starting with a clear explanation of how the new technology could help workers. "You need to demonstrate how that particular technology will add value into the processes, will help them to do things more efficiently, faster, and more economically," said Moloi, who has researched technological change management at numerous organisations.

At Brandix, the company has tried to stir excitement about AI by hosting demonstrations and a hack-a-thon where employees collaborated with Google Cloud representatives on AI projects.

"They are curious to know more. So we will reward that curiosity so that they can learn more," Amarasinghe said.

Moloi suggested that reverse mentor-ships may help to stir excitement, with younger and tech-savvier employees helping to teach new methods to their older colleagues.

Looking ahead

Internal resistance to implementing AI tools is only half the equation. The adoption of AI also can draw a company into broader societal questions, including around the potential replacement of human workers; the legal status of AI-generated material, including whether it can be copyrighted; the risk that biases in a model's training data will undermine the quality of its output; and the technology's high consumption of power and resources, among others.

While there may be no perfect answers, companies can best position themselves by thinking deeply about the various internal and external effects of their decision to embrace AI. For example, Deloitte uses a Trustworthy AI framework to guide its own decisions and conversations with clients. Having such a framework prepared beforehand can help leadership address questions that arise about AI, Calimache and Hittner said.

"Normally leaders think about one, two, or three risks," Calimache said. "And then when we show the framework, they realise, 'Wow, there's so much more I haven't even thought about.'"

Ultimately, companies have little choice but to start addressing these risks, Hubble said. Individual employees may already be using generative AI, even without authorisation, and competitors across industries are looking to the emergent technology for an edge.

"There are certain risks that you can play a wait-and-see game [with]. This isn't one of them," Hubble said. "You need to take proactive action within your business to understand how it is being used and set rules around how it should be used."

As Moloi put it: "There is a new technology almost every day. There is no stability, there is no certainty [on] the horizon. So we keep on moving, and we are moving fast." ■

LEARNING RESOURCES

Linking Risk Management to Strategy

Changes in the business landscape are accelerating in speed and complexity. Learn strategies to manage risks within your organisation.

COURSE

Ethics in the World of AI: An Accountant's Guide to Managing the Risks

This course discusses the current uses of AI in business, examines nine risk areas, and provides practical suggestions to address these risks effectively.

COURSE

AICPA & CIMA resources

Articles

"How Finance Can Start to Use AI Automation", *FM* magazine, 7 March 2024

"Executives' Tech Appetite Strong Despite Regulatory, Ethics Questions", *FM* magazine, 4 March 2024

Andrew Kenney is a freelance 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.

Rising risk: The global picture

Misinformation and disinformation emerge as a top short-term risk alongside extreme weather events, societal polarisation, and cyber insecurity, a survey found.

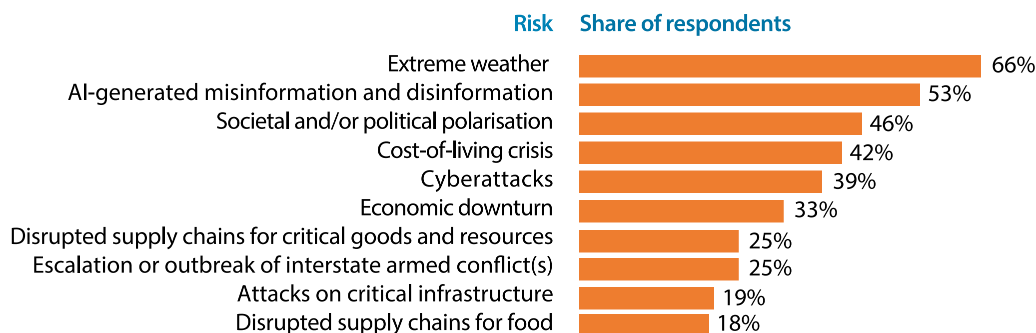
IMAGE BY OSAKAWAYNE STUDIOS/GETTY IMAGES

The world is a risky place — and becoming riskier. According to the World Economic Forum's (WEF) *Global Risks Report 2024*, just over half (54%) of the experts surveyed anticipate "some instability and a moderate risk of global catastrophes" over the next two years and a further 30% perceive a risk of greater turmoil. Looking ahead ten years, the 30% rises to 63%.

Businesses will need to continue to consider the effects of extreme weather — seen as the key risk for this year and ten years ahead — as well as cyber threats and the intended and unintended negative consequences of artificial intelligence (AI).

This year's WEF report also reveals the biggest changes since 2023 to short-term risks, which look two years ahead. Technological power concentration is the highest-rising risk from the WEF's 2023 survey and report. But also increasing as short-term risks are misinformation and disinformation and armed conflict between countries. The risk of wars is now regarded as the fifth-highest short-term risk (up from a ranking of 14th in 2023). It is also identified as a top five risk by executives in 20 countries in a separate WEF opinion survey. ■

Risks most likely to lead to a 2024 global crisis



Source: World Economic Forum Global Risks Perception Survey 2023–2024. Respondents were asked to identify up to five top risks.

How severe? Short- and long-term risks by impact

Two years ahead

Ranking	Risk
1	Misinformation and disinformation
2	Extreme weather events
3	Societal polarisation
4	Cyber insecurity
5	Interstate armed conflict
6	Lack of economic opportunity
7	Inflation
8	Involuntary migration
9	Economic downturn
10	Pollution

Ten years ahead

Ranking	Risk
1	Extreme weather events
2	Critical change to earth systems
3	Biodiversity loss and ecosystem collapse
4	Natural resource shortages
5	Misinformation and disinformation
6	Adverse outcomes of AI technologies
7	Involuntary migration
8	Cyber insecurity
9	Societal polarisation
10	Pollution

Source: World Economic Forum Global Risks Perception Survey 2023–2024.

Rising risks

Largest annual changes to short-term (two-year) risk perceptions

Risk	2024 ranking	2023 ranking
Technological power concentration	12	29
Misinformation and disinformation	1	16
Interstate armed conflict	5	14
Insufficient public infrastructure and services	18	27

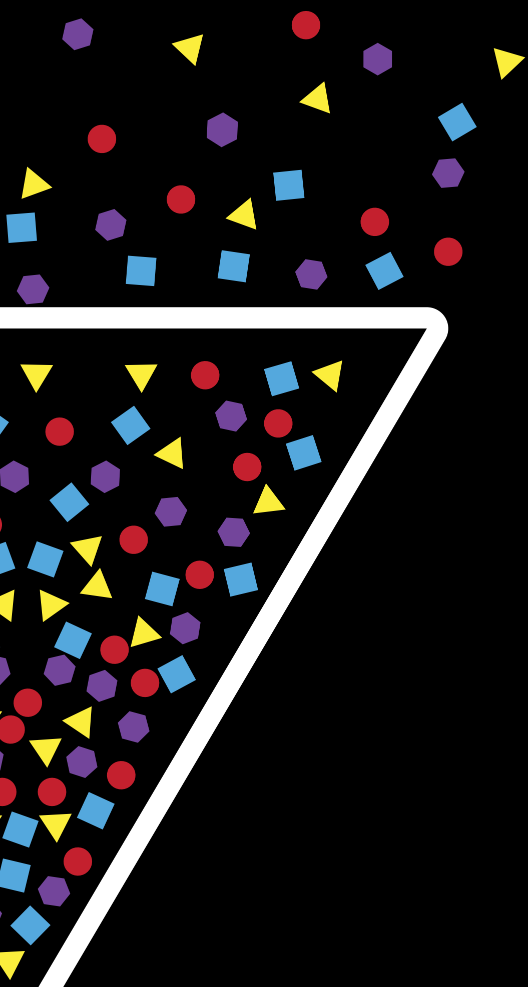
Source: World Economic Forum Global Risks Perception Survey 2023–2024 and 2022–2023.

6 steps to create a successful ERP implementation

To avoid costly mistakes, determine first whether an ERP system is required before moving to choose a business partner.

By Andrew Kenney

IMAGE BY ARTHEAD-/GETTY IMAGES



Among all the types of projects that a finance team may be asked to tackle, one stands out with particular notoriety: the implementation of a new enterprise resource planning (ERP) system.

These projects are costly, complex, and risky, requiring careful planning across all aspects of a business. And horror stories are commonplace, from a $1 billion debacle for the US Air Force that ended in cancellation in 2012 to a botched implementation that led to a significant profit fall for an avocado supplier in the quarter after its ERP system went live in 2021.

But far from being worried, Alexandra Barraclough, ACMA, CGMA, financial controller at Sandvik in Sweden, said her experience in this realm was an exhilarating high point in her career.

"I love process improvement. It's all about value additivity," she said in an interview with *FM*. "And when you see the changes — like a task that took two hours, and now it takes ten minutes — I feel like I've accomplished something."

A new ERP system is an upgrade that, despite its complexity and risks, can reap tremendous rewards in productivity, accuracy, and efficiency.

Here's what you need to know and consider before you begin your own implementation.

Decide if you need an ERP system

Joshua Heavener is a US-based consultant on ERP implementations, and many of his clients are just starting to use the systems.

Heavener looks for a few key signs that a company actually needs to make the move to put in an ERP system. These include the following:

- Staff spend significant amounts of time each week updating spreadsheets;
- Much of the business relies on paper;
- Multiple versions of the same file are in use, leading to confusion and disorganisation; and
- Customers complain about conflicting information.

ERP systems can help with efficiency and automation of a range of business processes and needs — from payment processes to general data management.

But an unplanned jump into a new system can bring dire consequences — and, indeed, much of Heavener's work as a consultant is with clients whose ERP projects have gone wrong.

"Clients generally have based their recent decisions on past experiences, not fully appreciating the complexity of this new world," he said.

Choose the right partner

Many businesses can expect to pay substantial sums for an ERP project — about 2% of gross sales for a period stretching from the beginning of planning until six months after the project is done, Heavener said. That timespan will cover at least a year for larger companies, he added.

With a project of this sort of scale, it's crucial to find not just the right system, but the right partner to implement it.

"You're going to be with [the third-party partner] for potentially two or three years," Barraclough said. "Make sure you choose the right one."

She advised checking with acquaintances in your business network for suggestions. And once you have candidates, make sure to probe their capabilities.

Barraclough suggested preparing a "very specific scenario" — an example of the kind of process that will be automated or otherwise assisted by your ERP — and asking the prospective implementation partner about how they'd handle it.

"Make sure you send it before the demo and you really drill them on it," she said.

Engage the team

An ERP project can affect the everyday work of people throughout the business. Failing to engage with and understand the needs of those users — whether they're business analysts or working in accounts payable — can result in disaster.

That means the ERP team has to engage with all functions and prepare the company for change (see the sidebar "Stakeholder Involvement").

"The first thing you want to do is organise internally and accept the responsibility that this is your project, this is your company … at the end, you're the ones who have to live with the decisions that are made and use this tool day in and day out," Heavener said.

Ginnie Basra, FCMA, CGMA, agreed. During an earlier job at a large beverage producer, she served as UK finance lead for an ERP implementation using SAP software.

"If you employ [only] consultants, it's not going to be as successful," said Basra, who is now finance director at UK-based catering equipment manufacturer Lincat Ltd., part of Middleby Corp. "You [need to] involve the warehouse … the purchasing team … the finance team."

A major ERP project could require the part-time or full-time dedication of multiple staff members. The team also will need executive sponsorship and authority backing it.

"Prioritise this over your day-to-day routines," Heavener said. "You can either

> **‘A big aspect of this is change management throughout. Make sure that the team understands the weight of the decisions and importance of the project. Incentivise them — maybe a financial incentive, or a week off after the hyper-care period.’**
>
> — Joshua Heavener, a US-based consultant on ERP implementations

prioritise it now while you have the discretion ... or else you will inevitably be forced to prioritise it after the fact.”

The goal, especially in the early stages, is to pair staff members who understand the business processes inside out with implementation experts who can document and translate those processes into the world of ERP.

Obtaining buy-in and accountability from all teams is equally crucial.

“I had to talk to all these people and see the processes and how we can smooth the data flow,” said Dileepa Sugathadasa, ACMA, CGMA, CPA (Australia), who is currently a management accountant for the Napier City Council in New Zealand. “And I’d explain, ‘This is what we’re going to do.’ And have the user think about it and respond with feedback.”

Additionally, in the case of a multi-region deployment, Sugathadasa suggested assigning local experts to the project to ensure that the system will properly serve each locality.

“We need a manager and supervisor at the top, and in each and every location you should have someone to support the project,” he said.

Resolve the ‘customised or stock’ dilemma

There’s an inevitable dilemma in most ERP projects: These systems are customisable and extendable, meaning that almost any ERP system can be modified to automate or increase the efficiency of any business process, no matter the company’s peculiarities. But those customisations add cost and complicate future maintenance.

Vendor sales teams “will say that it does everything. But what they don’t say with those customisations is you have to be very careful,” Barraclough said. “Certain processes are very difficult to automate.”

This can create tensions in the implementation process. Users will want the system customised so that it can help them handle all business processes with high degrees of automation, even ones that occur only infrequently.

But at some point, it may be preferable to simply have users continue to handle an occasional process manually, rather than spending time and money customising the ERP.

Basra posed the question: “Who keeps the balance between standardisation and customisation?” She added: “If you don’t

Stakeholder involvement

For successful ERP system adoption, businesses need the active involvement of internal stakeholders as well as technical consultants, according to Ginnie Basra, FCMA, CGMA. This involves:

- **Executive sponsorship:** Having champions sponsoring the project from the top of the organisation demonstrates leadership’s commitment to the project, and they provide an understanding of how the ERP system aligns with the overall business strategy.
- **Requirement gathering:** Shaping the ERP solution requires the active participation of business stakeholders in the requirements gathering process. Stakeholders also provide insights on business processes, pain points, and desired outcomes.
- **Process alignment:** Business stakeholders work actively with technical consultants to align existing business processes and identify gaps in the system that can be closed by process changes. Modification to the ERP system should be a final option, not only as it increases the cost of implementation but also because it makes the ongoing system maintenance a difficult and sometimes impossible task.
- **User training and change management:** Business stakeholders should be involved in the planning and execution of user training programmes. Change management includes communication plans and strategies to address employees’ concerns and resistance.
- **User acceptance testing:** Stakeholders should actively take part in user acceptance testing to ensure that the ERP system meets their functional requirements and expectations.
- **Feedback loops:** Stakeholders can be actively encouraged to provide continuous feedback throughout implementation. It should be demonstrated how their feedback is incorporated into the system configuration.

customise at all, then your processes are too manual. But if you make too many changes, it becomes a very expensive ERP system to maintain."

Besides the initial cost, customisations can also require upkeep to remain functional when the broader ERP system receives updates.

Test and train

Testing and preparation will smooth the way for deployment day.

One key task is to clean the data that powers the system.

"If you have a system that's been in place for 20, 30, 40-odd years, you'll always have anomalies in the data," Basra said. That might include, for example, a field that is used inconsistently across a manufacturer's dataset of thousands of SKUs (stock keeping units) used as identifiers to track inventory.

Under an existing legacy system, users may have found a workaround to that inconsistent data. "The users become so knowledgeable, they will intervene even if that field is not ticked," Basra said. "It works fine because that person is aware of what they need to do."

But the same patchy data can wreak havoc in a modern ERP system. Because the system runs more automatically and relies more closely on the business's data, any flaws in that data can lead to errors.

To identify and eliminate potential data quality issues, the experts who talked to *FM* advised assigning a team of users to test the new system in a controlled environment. These tests should focus on executing processes and seeing where the system breaks down. The implementation team also should validate that the new ERP system is mirroring the results of the legacy system when they are supplied with identical data.

"Have 'super-users' do the transactions in a controlled environment," Basra said, adding that any issues they encounter must be logged and prioritised. Ultimately, the project's steering committee has to make a "go or no go" decision based on the state of all current issues.

And the stakes will only get higher as the launch date draws near, Heavener said.

"A big aspect of this is change management throughout," he said. "Make sure that the team understands the weight of the decisions and importance of the project. Incentivise them — maybe a financial incentive, or a week off after the hyper-care period."

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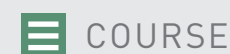

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COURSE

Once the system is nearly ready, the end users will need to be trained — a process that Basra said should be held until just before launch.

"You train people once," she said, "and if they don't use the system for another week or five weeks afterward, they'll forget what they learned."

Proper training ensures users are ready to use the system efficiently and with minimal errors, Basra added.

Learn as you go

For large companies, it may also be possible — and helpful — to deploy an ERP system in multiple phases. Basra's employers at the beverage company split the project into several phases, setting different launch dates for the finance and manufacturing functions as well as separate, sequential launches for each of five factories in the UK.

"We [started] not with the simplest site, but with a representative plant, which gave us an opportunity to fine-tune as we went along but also to capture our key requirements initially," she said.

The team grew more efficient as it completed more deployments. Although the first activation of the new system in a manufacturing site took a marathon of nearly 24 hours of work, the final go-live cutover was finished in about five hours — a win that Basra ascribed not just to the phased approach but to the international project's leadership.

Finally, there's the question of how to keep the system up and running for years to come. Barraclough suggested assigning some of the people who worked on the implementation project to permanent roles related to the system, if they so desire.

And Heavener offered one piece of advice above all: For all their complexity, including the nascent availability of AI functionality, the ultimate goal is to ensure these systems serve the people of your business.

"The people will tell you what they need, as long as they know you're there to help," he said. ■

Andrew Kenney is a freelance 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

"5 Steps to Transition to a Subscription-Based Business Model", *FM* magazine, 13 March 2024

"How to Use Digital Technology to Upgrade Your Supply Chain", *FM* magazine, 6 July 2023

Report

Frictionless Finance: Driving Data to Value, AICPA & CIMA, 30 September 2023

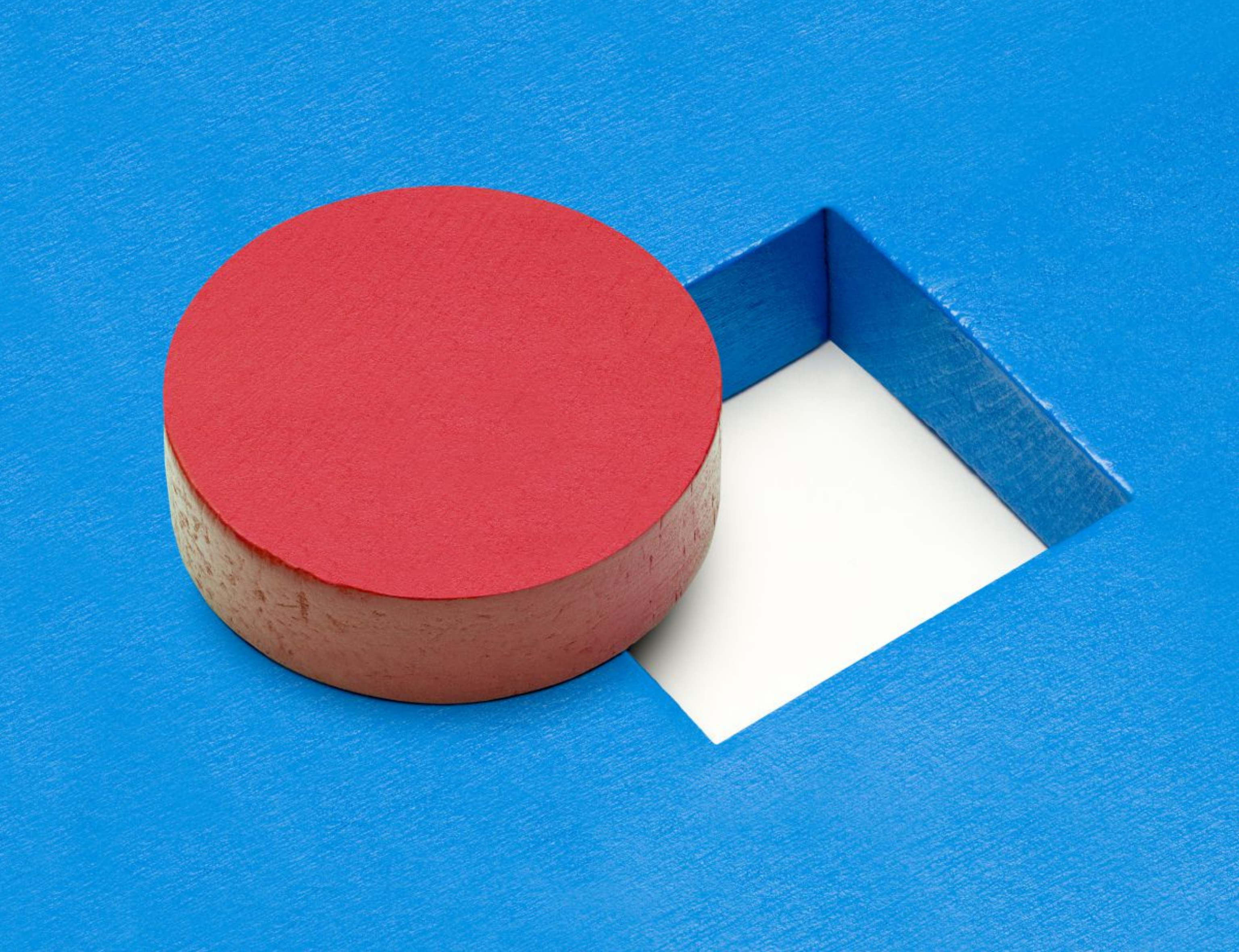

IMAGE BY MICHAEL BURRELL/GETTY IMAGES

Common management reporting mistakes to avoid

Failures in the timeliness, usefulness, and visualisation of data when preparing information for decision-makers can undermine organisational success.

By Eric R. Alexander, CPA

Providing financial — and increasingly nonfinancial — information for decision-making is one of the most important reasons for the finance function's existence. Consequently, falling short in management reporting creates risks for the organisation: Failing to provide timely, useful financial information means that decisions will be based on misleading, inaccurate, or even meaningless information. It hampers key internal decision-makers' ability to lead the organisation successfully.

Finance teams have numerous opportunities to inadvertently deliver useless and misleading reporting for executives, board members, business unit leaders, and other key internal decision-makers.

Here are significant mistakes to avoid (see also the sidebar, "Data Visualisation Risks").

Information that's not timely

The easiest way to fail at management reporting is not reporting in a timely way. The further an organisation travels obliviously into the future without its decision-makers knowing its key performance measures, the greater the risks to the organisation.

Though the information captured in the general ledger and other systems inevitably looks backwards in time, it can still provide insights into performance and trends that enable decision-makers to monitor activities and make real-time adjustments. But decision-makers need to see it in a timely way. The bigger the time gap between past results and current decision-making opportunities, the greater the risk to the business as leaders miss opportunities for quick course changes.

When closing the books monthly, reasonably accurate estimates can be effective for decision-makers. It is important to not waste time ensuring the accuracy of minutiae that may not be material to the overall results. Insisting on extra time to perfect the financial results can prolong decision-makers' reliance upon guesswork.

Information that's not useful

Even if you and your team deliver management reporting in a timely way, that doesn't mean that what is delivered is necessarily useful to decision-makers.

If those decision-makers took time to define for you what they consider useful, the list would likely include these characteristics as a minimum: reliable; understandable; and having the optimum level of detail, ie, they are concise yet complete.

And it's not unusual for the normal management reporting that finance provides to fall short in some — and sometimes all — of those three attributes.

Reports that are not reliable

If the finance team doesn't exercise due care, decision-makers can lose confidence in management reporting and cease to rely on it. And this often occurs in two stages.

The first stage involves inaccuracies in the information reported, with risks of that occurring at each stage of the management reporting process:

- Gaps or errors at the general ledger level (US GAAP or IFRS applied incorrectly, entries made incorrectly, material entries overlooked, ineffective end-of-period cutoff procedures used, etc.).
- Errors within the standard reporting packages from the accounting systems (misleading captions and categories, reports out of balance, etc.).
- Errors translating those system outputs into spreadsheet-based reports for the decision-makers (errors rekeying data, formula errors, hidden data, rows and columns that don't foot and cross-foot, etc.). The flexibility inherent in spreadsheet tools makes this last step in the process especially ripe for inaccuracies. These inaccuracies take lots of work to identify and correct because so many of the problems lie in hidden rows or complex formulas within individual cells or hardcoded data mixed in with formulas.

But the second stage is more subtle and pernicious: If internal decision-makers encounter inaccurate financial information regularly in the management reporting they receive, they will lose confidence in and cease to rely on *any* management reporting. Reliability results from recognised accuracy delivered over time.

Reports that are not understandable

The finance team must ensure the financial reports it produces are understandable to the intended audience. Board members may not understand jargon and specialised acronyms and abbreviations. The board members' lack of day-to-day involvement in the organisation and, for some, a lack of familiarity with specialised language and management's communication shortcuts make them particularly vulnerable to misunderstandings. This puts them in the uncomfortable spot of needing to ask for clarification.

But often the unfamiliar language that bedevils directors combines with the following mistakes that regularly baffle *all* decision-makers — board members and management alike:

- **Ambiguous report elements**
  Decision-makers can get lulled into complacency by the familiar format of captions down the left, headings along the top, and parallel columns of numbers in the body of the report. Lack of attention to several common mistakes can cause problems, eg, where headings and captions are unclear; time periods or dates are unspecified (or only partially identified, such as "Q1" — but of which fiscal year?); a failure to distinguish between actual, budget, and forecast data; and, in a report on a multi-entity organisation, leaving the specific entity unstated.

- **Technical references**
  Finance professionals inhabit a complex and heavily codified world of financial reporting standards and tax codes and possibly of specialised regulatory knowledge. Technical language and code section references to technical compendia obscure valuable information. A simple layperson's explanation alongside the technical terminology can help dramatically.

- **An inappropriate level of precision**
  The risk here relates to reporting large currency amounts with meaningless and distracting significant figures (billions of dollars of assets reported to the nearest penny, for instance), or rounding small but material numbers

at a level that obscures significant variations (eg, return on assets rounded to the nearest 10%).

- **Zero context**
  This is all too common. Reporting financial information in a timely way, accurately, with unambiguous labels and without specialised or technical language can *still* deliver useless information by excluding appropriate context. For example: You report that "Days sales outstanding in Accounts Receivable" at month end came in at 46. You've done your job; you've reported on financial results. Yet decision-makers may not know how that compares with your organisation's results over time (trending better or worse or largely unchanged?) or with your peers or the industry average. Context is too valuable to decision-makers to neglect. It needs to be a normal part of your financial reporting.

Reports without an optimum level of detail

Decision-makers become emphatic on this next topic, regularly insisting you provide them the Goldilocks dose of financial reporting: not too much, not too little, but just right.

This creates a risk related to swinging toward either extreme: providing decision-makers only highly summarised basic information or deluging them with details. You may be swamping them with minutiae in an attempt to demonstrate transparency and thoroughness. But by showing them *so much* information (perhaps thousands of pages for a monthly board pack), you are effectively revealing very little. Meaningful, material, and actionable information readily gets lost in a profusion of data.

So many risks

Without due care and attention, a finance team can inadvertently deliver near-zero-value management reporting: both late *and* not useful. And, not uncommonly, a failure to provide useful information stems from inattention to all three usefulness aspects: reliability, understandability, and providing neither too much nor too little information.

Failing in even one respect — whether in timeliness, reliability, understandability, or appropriate volume — can yield significant challenges for decision-makers and thereby undermine the organisation's success. ■

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Article

"Tips to Enhance Communication With Nonfinance Colleagues", *FM* magazine, 5 October 2023

Eric R. Alexander, CPA, is a US-based consultant and former banking sector CFO. To comment on this article or to suggest an idea for another article, contact Oliver Rowe at Oliver.Rowe@aicpa-cima.com.

Data visualisation risks

Data visualisation commands much attention. Decision-makers ask for it to help them understand financial data. However, finance teams often deliver visualisations that make it harder for decision-makers to understand the data correctly or easily.

Key visualisation risks include:

Utilising a chart type that doesn't fit the data

For example, a pie chart or doughnut chart doesn't accurately display time series data. Likewise, a line or area chart — both of which imply data across time — would not accurately present data that does not have a time series element.

Manipulating the range of the vertical axis

This is especially risky for trend data. For data where minute changes are significant (fractions of a percentage point in return on assets, for instance), using zero as the lower bound of the range for the axis obscures significant changes as they occur, making them appear tiny, if they can be discerned at all. And for data where day-to-day swings don't matter as much as general trends, narrowing the range (setting the lower bound well above zero) creates a perception of wild, volatile swings and obscures the general trend by drawing attention to the immaterial day-to-day variations.

Combining too many data elements in a single chart

Some readers of financial information have trouble processing more than a handful of patterns at a time. This problem is exacerbated when charts are loaded with too much data, such as too many data series. Also, Excel lets you show data relative to two vertical axes in line and area and column and combo charts. This amplifies the "too many patterns" risk — especially if decision-makers struggle to decipher which data series goes with which axis.

Getting fancy

Options for formatting creativity abound. This is not the time to indulge your creative instincts with a profusion of colours, highlighting, bolding, different text sizes, shadows, callouts, and so on. And be extra careful with the more obscure chart types, like scatter graphs, radar graphs, or box-and-whisker graphs, as they can be hard to understand.

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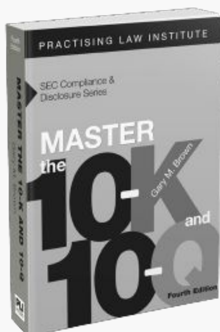

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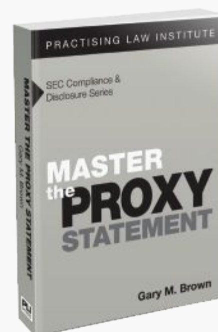

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4 shifts redefining how finance creates sustainable value

Taking a longer-term view, managing intangible capitals and stakeholder relationships and establishing broader business model engagement will create new opportunities for finance.

By Ash Noah, CPA, CGMA, FCMA

IMAGE BY MARIAN/GETTY IMAGES

Within the past couple of years there have been significant shifts in how enterprise value is being defined. Factors such as the rapid evolution and expansion of technology and changing ways of working have caused finance to reconsider and redefine its role. This redefinition provides new opportunities for finance professionals to create value for their businesses, especially in the area of sustainability.

With increased demand from investors and stakeholders for more transparent sustainability disclosures, along with increasing regulation and standards around sustainability reporting, businesses can no longer focus solely on profits to assure success. The rise of social and investor activism is changing how businesses create value and achieve long-term prosperity. By becoming more transparent in their sustainability reporting, businesses not only respond to investors' social and environmental concerns, but they can also boost their reputation, build consumer confidence, and even pave the way for new innovations.

To assist in this change in focus, finance should embrace shifts in its management of time horizons, capitals, relationships, and business models. These shifts, their impacts, and the changing role of finance are explored in depth in our Future of Finance 2.0 report, *Re-defining Finance for a Sustainable World*.

Developing new capacities to support these shifts — including data and analytics, technology and automation, and 21st-century human skills — will help the finance function not only redefine its role, but also expand it to become an integral part of the enterprise as sustainability reporting and disclosure continue to evolve.

The four shifts required relate to:

Time horizon management

Finance needs to move beyond the traditional boundaries of short-term enterprise profitability to understand and support value creation for the medium and long term. Performance management should shift from annual cycles to

medium- and long-range views. Scenarios around long-term planning and forecasting need to span significantly longer time periods.

Capitals management

Finance needs to expand beyond its capability in managing tangible financial and manufactured capitals. In its redefined role, finance must create frameworks and capability to manage intangible capitals such as social and relationship, intellectual, human, and natural. This requires new KPIs and measurement metrics that track performance and value generation of these intangible assets. (See also the sidebar, "Integrated Reporting and Sustainable Businesses".)

Relationship management

Beyond their traditional relationships with regulators, management accountants will need to learn to manage relationships with stakeholders such as investors and credit providers. They will also need to expand their relationship management to increasingly reach customers, distributors, suppliers, employees, communities, and governments. By developing and managing these relationships, finance can contribute to significant value creation for the enterprise.

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 to 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.

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Business model management

The finance function has traditionally focused predominantly on the dimension of costs and revenues within the business model. Management accountants must now recognise the imperative for the finance function to create value through wider engagement and partnering in the enterprise's business model. New capability and competencies are required to participate in other dimensions of the business model that define how an enterprise creates and delivers value. Finance must connect performance with purpose and engage in the design and delivery of its customer value proposition and the culture of the enterprise and its digital platform.

The competencies required

To make these big shifts effectively, finance teams will need to develop competencies in the areas of data and analytics, technology and automation, and 21st-century power (human) skills.

Data and analytics competencies will be essential to enable finance professionals to leverage enterprise data, as well as big data and analytics, to generate valuable insights. Also needed are competencies that enable professionals leveraging data and analytics to make greater and better connections between financial and nonfinancial information. This is especially important for sustainability-related information on risks and opportunities that are financially material to enterprise value creation and preservation. Advanced expertise in data and analytics will be required to decrease the time spent on the curation and generation of information and increase the time spent on actionable insights, decision-making, and execution.

Technology and automation competencies, in addition, enable finance professionals to understand the new realms of possibilities by leveraging the latest technologies and automation, as well as deploying AI in new ways and areas. Emerging climate technologies present new opportunities in the sustainability arena.

21st-century power (human) skills such as empathy, communication, and collaboration, in tandem with technology, are critical to achieving the shifts required. These power skills are essential for stakeholder relationship management and for engaging with the business model. Skills such as critical thinking and problem-solving are crucial for the management of intangible assets and for addressing longer-term value-creation management.

Make an impact

As finance leaders, we must understand that sustainability is much more than reporting. It has implications for an organisation's business model and how value is defined, created, delivered, and captured.

Every business model's starting point is about how value is defined, and the definition of value is determined by its various stakeholders. Sustainability and ESG factors now fundamentally affect how stakeholders define value and, as a result, impact how an enterprise will deploy resources to create value.

Decisions around resource allocation in both the short term and the long term need to take sustainability and ESG factors, such as de-carbonisation and the use of natural resources, into account. Sustainability has significant implications for enterprise value.

Finance professionals have a unique, once-in-a-lifetime opportunity to develop this process of redefining value — and finance itself — for the sustainable world of the future.

Explore more about the evolving role of finance by visiting the Future of Finance 2.0 resource page on the AICPA & CIMA website. ■

AICPA & CIMA resources

Articles

"US Regulator Adopts Climate Rule With Worldwide Impact", *FM* magazine, 7 March 2024

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

Ash Noah, CPA, CGMA, FCMA, is vice-president and managing director–Learning, Education, and Development 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.

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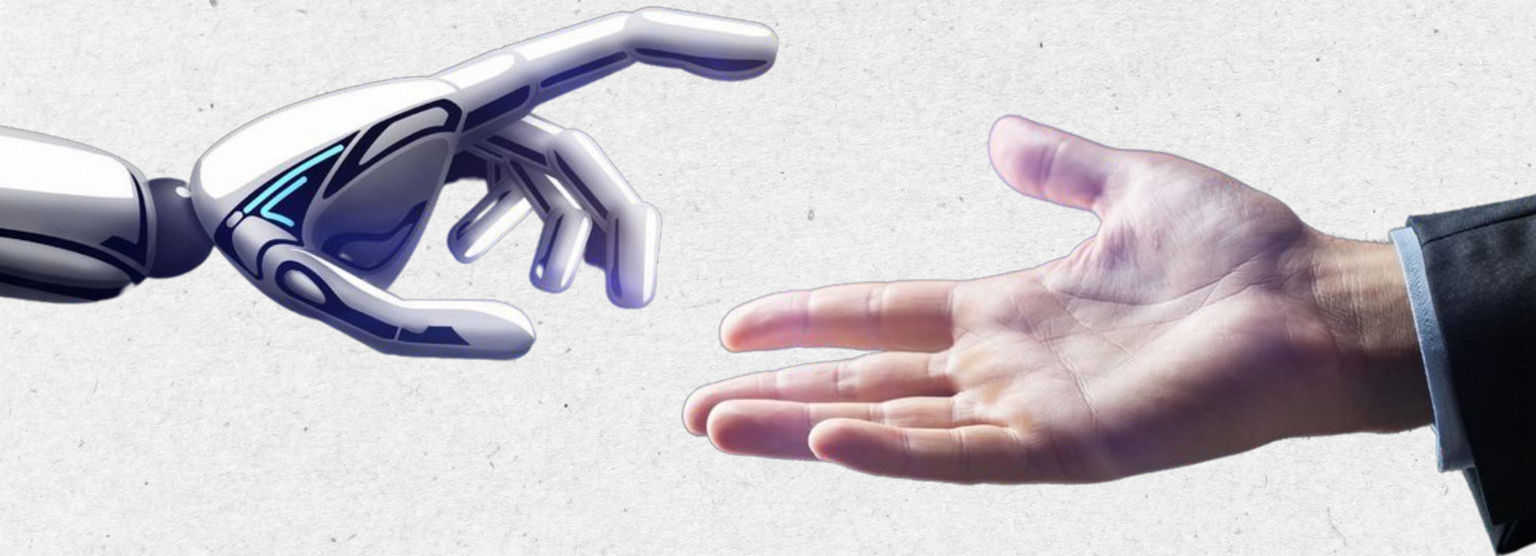

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How Excel builds on basic principles to assist forecasting

Understand how to calculate an implied growth rate, and then use the Forecast Sheet button in Excel for objective forecasting.

By Liam Bastick, FCMA, CGMA

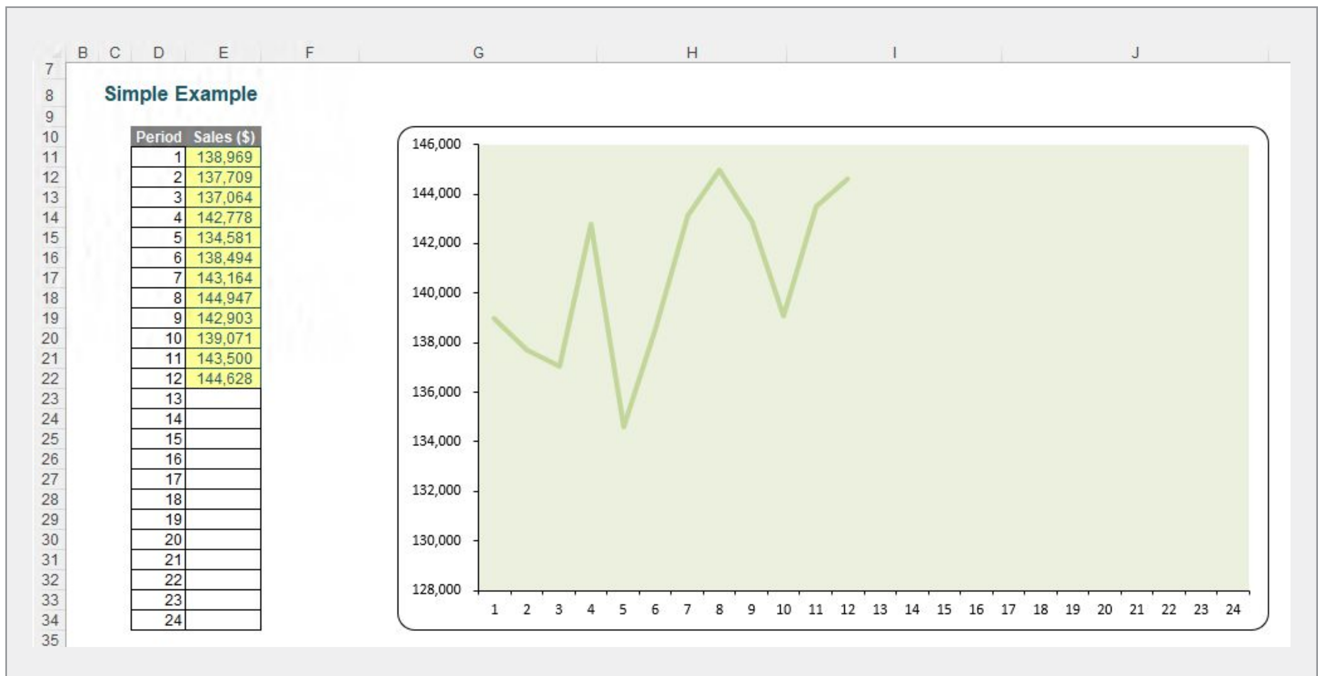
IMAGE BY SHUTTER2U/ABODE STOCK

I have written before about a busy accountant's need for *objective* forecasting, and I think it's high time to revisit the topic. By "objective forecasting", I mean something that can be constructed simply, such that if anyone follows the same algorithm, they will obtain the *same* figures. This is important, as this is where operational and finance staff come together, each with their own skillsets where they will work better together than individually.

As such, it remains a mechanical, objective process. No one becomes invested emotionally or mathematically in their figures — and variations from the initial calculations only need to be explained (ie, incremental, rather than zero-based, forecasting will be adopted).

Consider an example (see the screenshot "Simple Example — Sales").

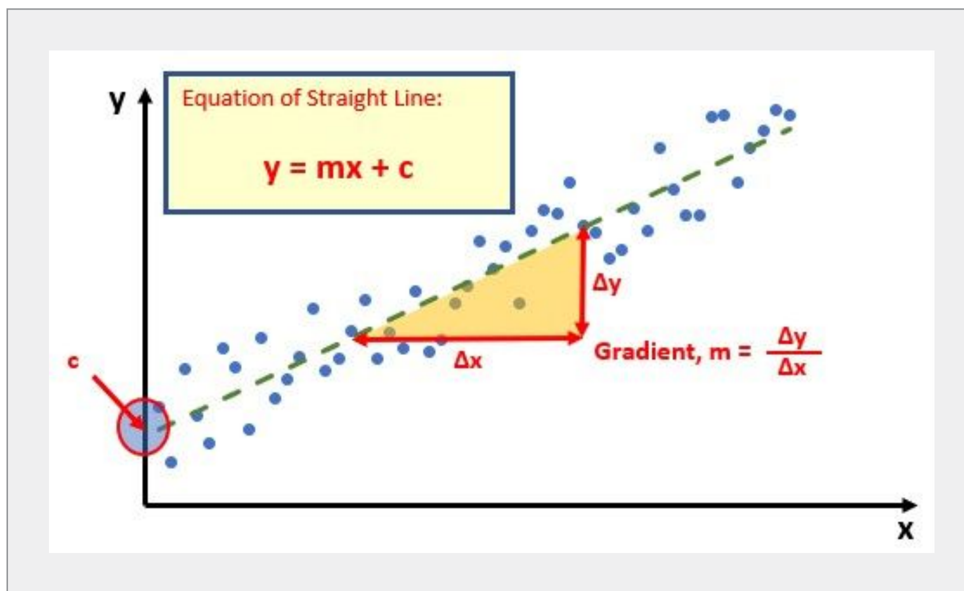
Simple example — sales



Here, I have 12 months of sales, and I wish to predict the following 12 months' values. Some analysts and forecasters will calculate moving averages, weighted moving averages, and so on, but perhaps a better approximation may be made using linear regression analysis — something supported by Excel.

Linear regression analysis is a means of drawing the "best straight line" through a set of observable data points (see the graph "Linear Regression Analysis").

Linear regression analysis



This is *not* subjective. The "best straight line" is usually defined using the least squares method. For a set of data points:

$$(x_1, y_1), (x_2, y_2), (x_3, y_3), \ldots, (x_n, y_n)$$

the average (mean) of the **x** and the **y** values can be determined as x̄ and ȳ respectively:

$$\bar{x} = \frac{1}{n}\sum_{i=1}^{n} x_i \qquad \bar{y} = \frac{1}{n}\sum_{i=1}^{n} y_i$$

The equation of the slope (gradient) is then given by:

$$m = \frac{\sum_{i=1}^{n}(x_i - \bar{x})(y_i - \bar{y})}{\sum_{i=1}^{n}(x_i - \bar{x})^2}$$

and the **y**-intercept would be calculated as:

$$c = \bar{y} - m\bar{x}$$

Thus, the equation of the straight line would be:

$$y = mx + c$$

Please don't start running for cover in response to the mathematical equations above. You don't need to know — or understand — them. Excel has functions that can calculate them:

- **SLOPE(known_y's, known_x's)** will calculate the slope or gradient.
- **INTERCEPT(known_y's, known_x's)** will calculate the **y**-intercept, ie, the value of **y** when **x** is zero [0].
- **TREND(known_y's, known_x's, new_x's, [constant])** will calculate the new **y** value(s) for given **x** value(s). The argument **constant** should be omitted so that it will be calculated according to the best straight line and not forced through the origin (the point (0, 0)).

The important thing is to get the **x** and **y** values the correct way round. The **x** value is known as the independent value (the one you may select), and the **y** value is known as the dependent value, as it is based upon the value of **x** chosen.

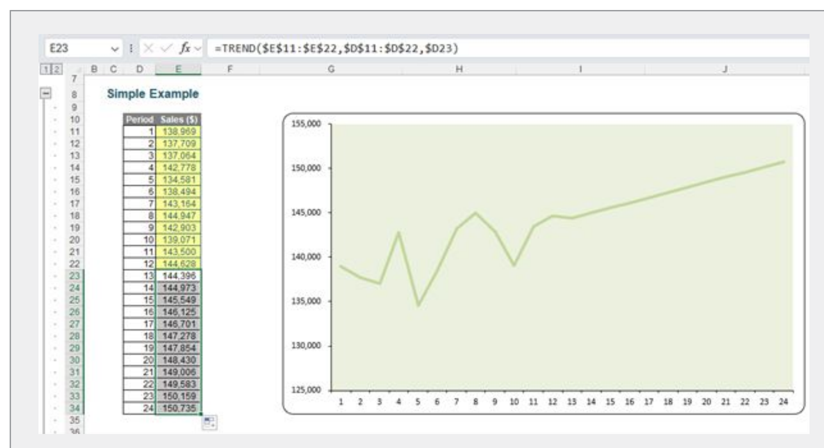
For instance, you would ask, "What will my sales in December be?" rather than "My sales are $12,497,639 — what month is it?" Here the independent value (**x**) would be the month, and the dependent variable (**y**) would be sales.

Returning to my example, I can use either the formula:

=TREND($E$11:$E$22,$D$11:$D$22,$D23)

(See the screenshot "Using the TREND Function".)

Using the TREND function



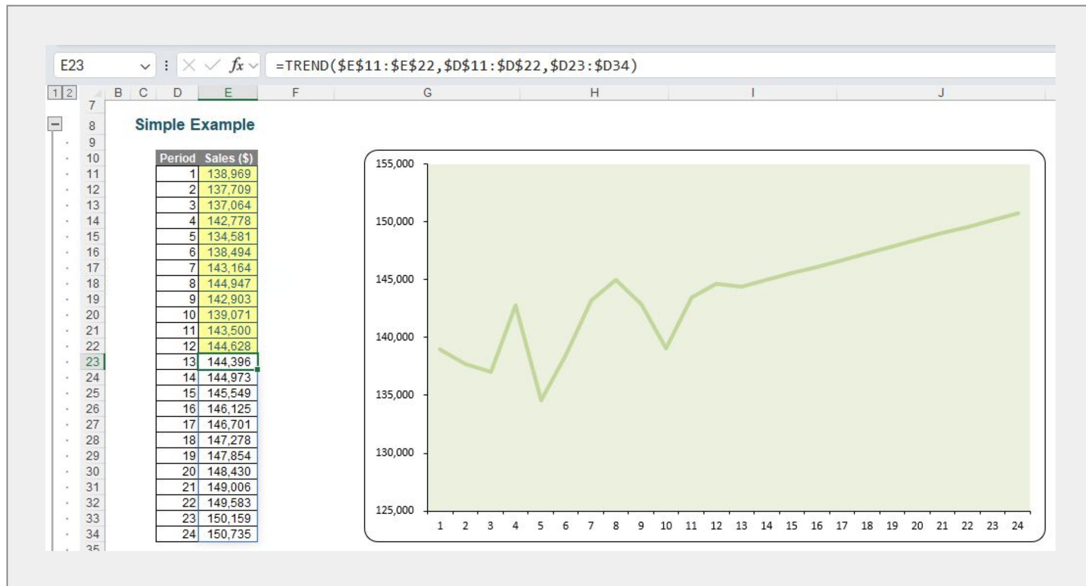
Period	Sales ($)
1	138,969
2	137,709
3	137,064
4	142,778
5	134,581
6	138,494
7	143,164
8	144,947
9	142,903
10	139,071
11	143,500
12	144,628
13	144,396
14	144,973
15	145,549
16	146,125
17	146,701
18	147,278
19	147,854
20	148,430
21	149,006
22	149,583
23	150,159
24	150,735

and copy it down, or else use the dynamic array formula, assuming you have Excel 365:

=TREND($E$11:$E$22,$D$11:$D$22,$D23:$D34)

(See the screenshot “Using the Dynamic Array Formula”.)

Using the dynamic array formula

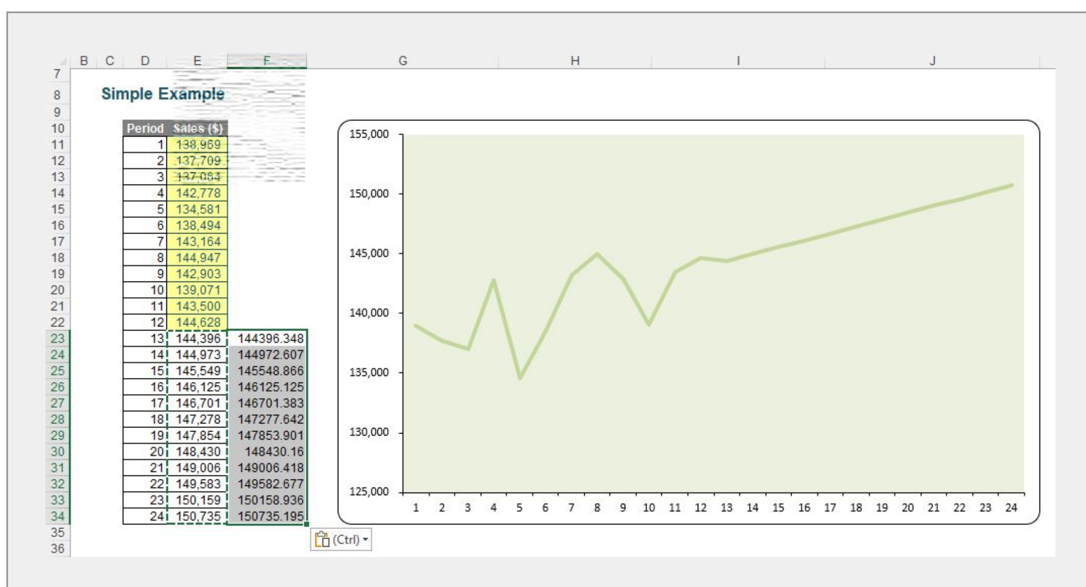


Period	Sales ($)
1	138,969
2	137,709
3	137,064
4	142,778
5	134,581
6	138,494
7	143,164
8	144,947
9	142,903
10	139,071
11	143,500
12	144,628
13	144,396
14	144,973
15	145,549
16	146,125
17	146,701
18	147,278
19	147,854
20	148,430
21	149,006
22	149,583
23	150,159
24	150,735

Either way, you generate a “swordfish” image. It wouldn’t look good to report these values to senior management, as the numbers look too simplistic.

However, we do now have an implicit growth rate, based upon the historical values. We can use this to reallocate the numbers computed. I will begin by copying and pasting as values the forecast numbers (see the screenshot “Forecast Numbers As Values”).

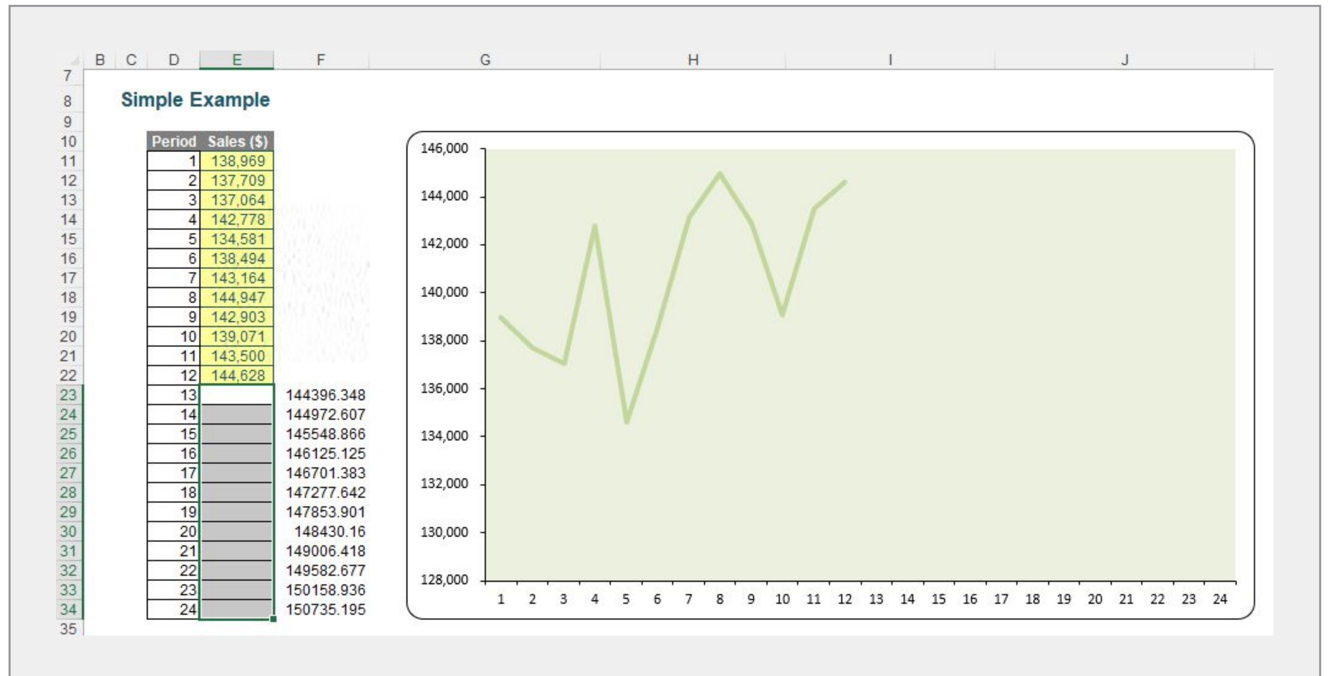
Forecast numbers as values



Period	Sales ($)	
1	138,969	
2	137,709	
3	137,064	
4	142,778	
5	134,581	
6	138,494	
7	143,164	
8	144,947	
9	142,903	
10	139,071	
11	143,500	
12	144,628	
13	144,396	144396.348
14	144,973	144972.607
15	145,549	145548.866
16	146,125	146125.125
17	146,701	146701.383
18	147,278	147277.642
19	147,854	147853.901
20	148,430	148430.16
21	149,006	149006.418
22	149,583	149582.677
23	150,159	150158.936
24	150,735	150735.195

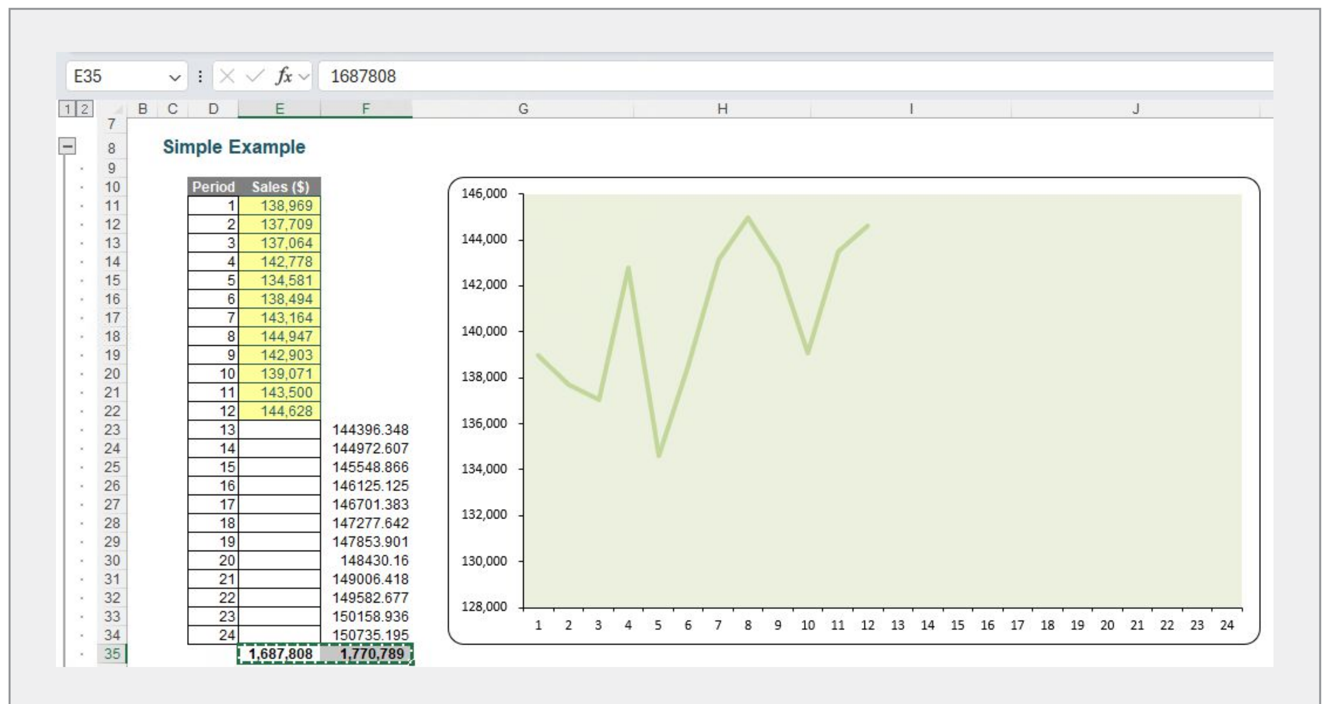
I will then delete their formulaic counterparts (see the screenshot “Formulaic Counterparts Deletion”).

Formulaic counterparts deletion



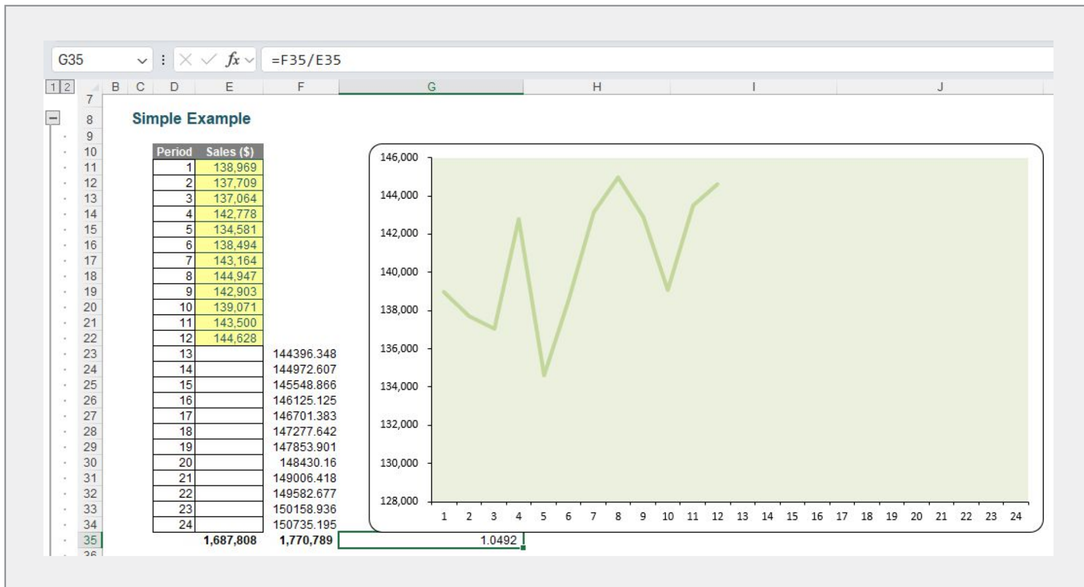
In this instance, since I have both 12 months of actual data and 12 months of forecast data, I may sum both sets of values, which I will then copy and paste as values, to avoid a potential circularity (see the screenshot "Summing Both Sets of Values").

Summing both sets of values



I now have the implied growth rate, being F35/E35, which is approximately 1.0492 (see the screenshot "Implied Growth Rate Calculation").

Implied growth rate calculation

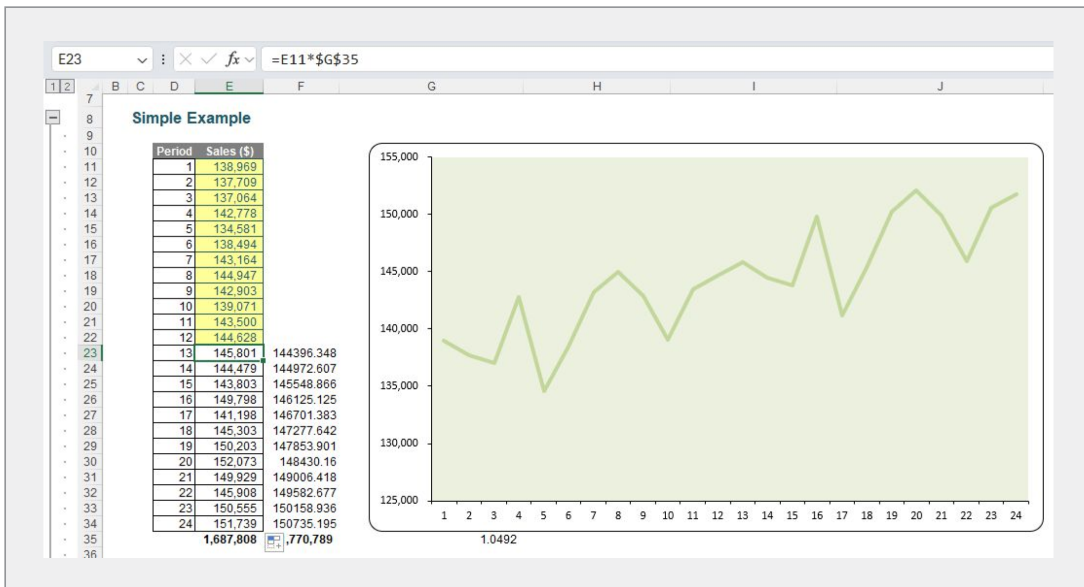


Period	Sales ($)	
1	138,969	
2	137,709	
3	137,064	
4	142,778	
5	134,581	
6	138,494	
7	143,164	
8	144,947	
9	142,903	
10	139,071	
11	143,500	
12	144,628	
13		144396.348
14		144972.607
15		145548.866
16		146125.125
17		146701.383
18		147277.642
19		147853.901
20		148430.16
21		149006.418
22		149582.677
23		150158.936
24		150735.195
	1,687,808	1,770,789

1.0492

This value in cell G35 may then be used as the multiplication factor for the forecast values, using it on the actual values from 12 months previously (see the screenshot "Deriving Forecast Values"). Of course, this assumes a 12-month cycle.

Deriving Forecast Values



Period	Sales ($)	
1	138,969	
2	137,709	
3	137,064	
4	142,778	
5	134,581	
6	138,494	
7	143,164	
8	144,947	
9	142,903	
10	139,071	
11	143,500	
12	144,628	
13	145,801	144396.348
14	144,479	144972.607
15	143,803	145548.866
16	149,798	146125.125
17	141,198	146701.383
18	145,303	147277.642
19	150,203	147853.901
20	152,073	148430.16
21	149,929	149006.418
22	145,908	149582.677
23	150,555	150158.936
24	151,739	150735.195
	1,687,808	,770,789

1.0492

This looks much better. Where staff disagree with the numbers, since they have been forecast objectively, they merely have to revise these estimates and explain the reason for the deviation(s). Incremental budgeting in seconds!

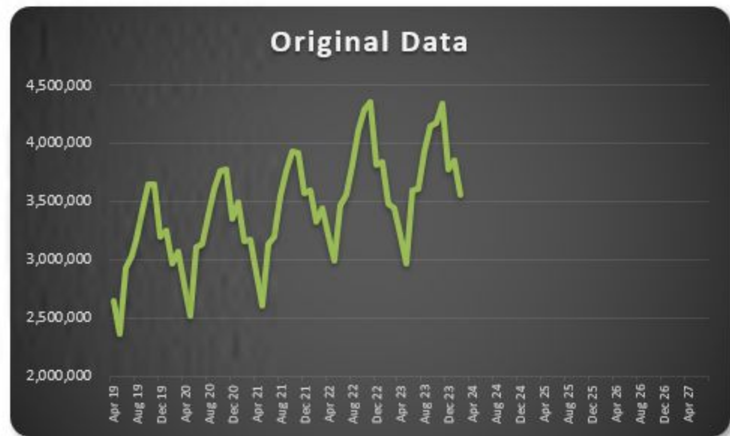
If you have actual data that pertains to a longer historical period, you may need to revise the mathematics accordingly and generate a growth rate based upon compound annual growth rates (CAGRs). However, this is not the key point; it is understanding the principle.

You are *not* going to forecast this way, though. You are simply going to use this as an explanation for a very simple technique, known as exponential triple smoothing (ETS). It may sound like a dairy process, but it actually uses the weighted mean of past values for forecasting. It's popular in statistics, as it adjusts for seasonal variations in data, similar to the example above.

Allow me to demonstrate how you may forecast *in seconds*. Let's consider the following data, available in the example Excel file. (See also the screenshot "Historical Data".)

Historical data

Date	Sales
30 Apr 19	2,644,539
31 May 19	2,359,800
30 Jun 19	2,925,918
31 Jul 19	3,024,973
31 Aug 19	3,177,100
30 Sep 19	3,419,595
31 Oct 19	3,649,702
30 Nov 19	3,650,668
31 Dec 19	3,191,526
31 Jan 20	3,249,428
29 Feb 20	2,971,484
31 Mar 20	3,074,209
30 Apr 20	2,785,466
31 May 20	2,515,361
30 Jun 20	3,105,958
31 Jul 20	3,139,059
31 Aug 20	3,380,355
30 Sep 20	3,612,886
31 Oct 20	3,765,824
30 Nov 20	3,771,842
31 Dec 20	3,356,365
31 Jan 21	3,490,100
28 Feb 21	3,163,659
31 Mar 21	3,167,124
30 Apr 21	2,883,810
31 May 21	2,610,667
30 Jun 21	3,129,205
31 Jul 21	3,200,527

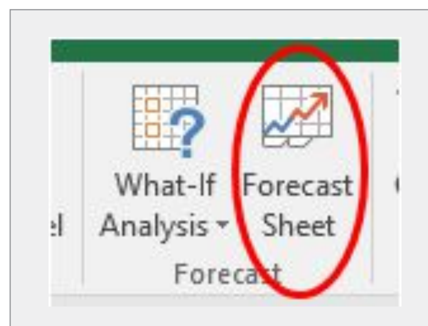


Of course, historical data this perfect will never happen in practice, but I am simply trying to demonstrate the idea.

Since the introduction of Excel 2016, there is now a set of new functions such as FORECAST.ETS and other supporting functions for additional statistics that will generate your future values. Your data set does not need to be perfect like the above image, as the functions will accommodate up to 30% of your data missing.

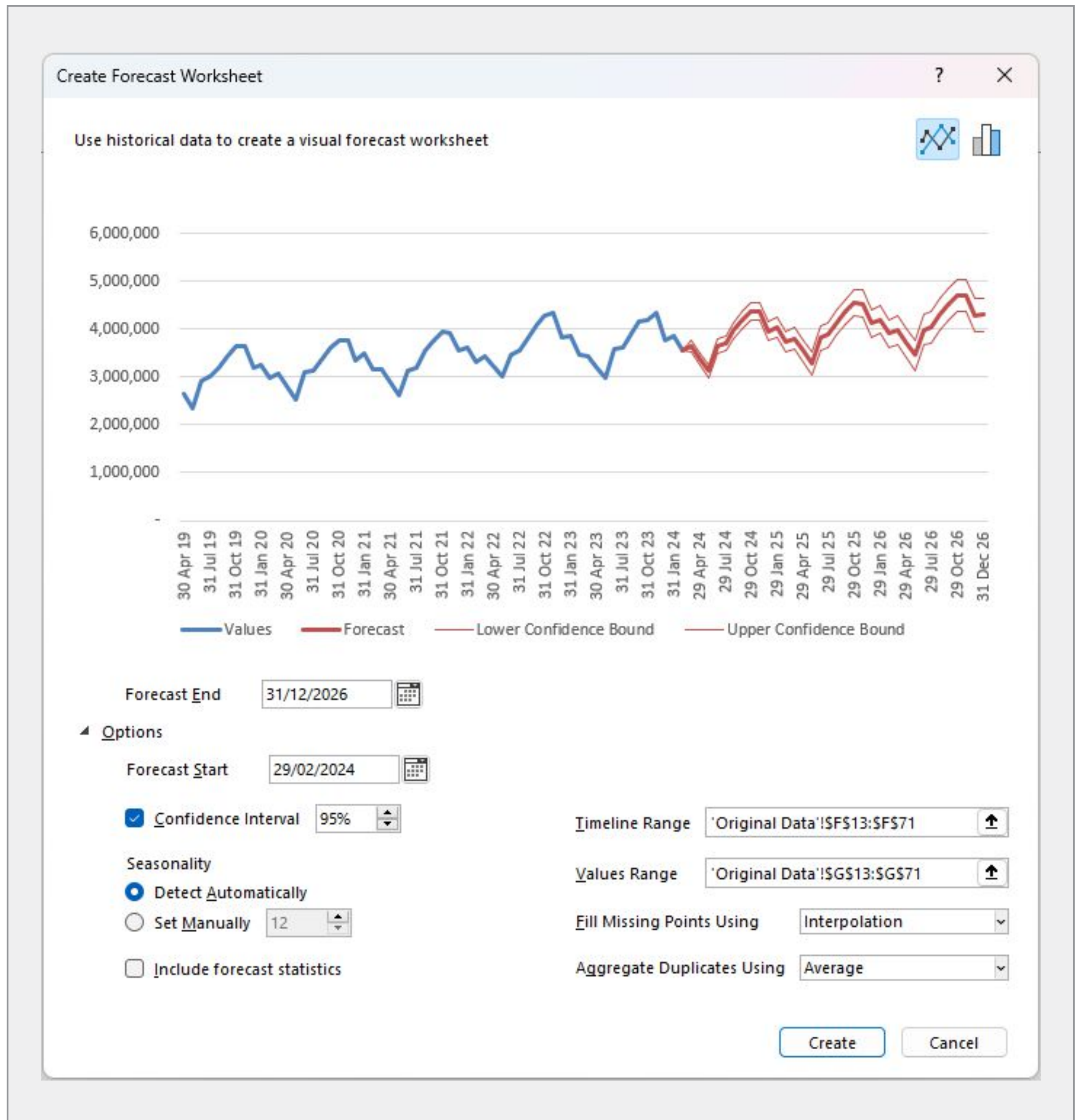
I won't even bother with these functions. Simply highlight the actual data and click on the **Forecast Sheet** button in the **Forecast** group of the **Data** tab of the **Ribbon** (ALT A + FC) — see the screenshot "Using the Forecast Sheet Button".

Using the Forecast Sheet button



All you need to do is specify the final forecast period at the prompt, and that's it (see the screenshot "Create Forecast Worksheet").

Create Forecast Worksheet



You don't necessarily need to expand the **Options** section (the section immediately after the "Forecast End" date), since most of the time the Timeline and Values ranges generated will appear reasonable. It produces a raw data sheet, together with confidence intervals (to demonstrate potential spread in the forecast error), as shown in the screenshot "Raw Data Sheet".

Raw data sheet

	Timeline	Values	Forecast	Lower Confidence Bound	Upper Confidence Bound
13	31 Mar 20	3,074,209			
14	30 Apr 20	2,785,466			
15	31 May 20	2,515,361			
16	30 Jun 20	3,105,958			
17	31 Jul 20	3,139,059			
18	31 Aug 20	3,380,355			
19	30 Sep 20	3,612,886			
20	31 Oct 20	3,765,824			
21	30 Nov 20	3,771,842			
22	31 Dec 20	3,356,365			
23	31 Jan 21	3,490,100			
24	28 Feb 21	3,163,659			
25	31 Mar 21	3,167,124			
26	30 Apr 21	2,883,810			
27	31 May 21	2,610,667			
28	30 Jun 21	3,129,205			
29	31 Jul 21	3,200,527			
30	31 Aug 21	3,547,804			
31	30 Sep 21	3,766,323			
32	31 Oct 21	3,935,589			
33	30 Nov 21	3,917,884			
34	31 Dec 21	3,564,970			
35	31 Jan 22	3,602,455			
36	28 Feb 22	3,326,859			
37	31 M				
38	30 A				
39	31 M				
40	30 Ju				
41	31 J				
42	31 Au				
43	30 Se				
44	31 O				
45	30 N				
46	31 De				
47	31 Ja				
48	28 Fe				
49	31 M	[illegible]			
50	30 Apr 23	3,204,637			
51	31 May 23	2,966,477			
52	30 Jun 23	3,593,364			
53	31 Jul 23	3,604,104			
54	31 Aug 23	3,933,016			
55	30 Sep 23	4,146,797			
56	31 Oct 23	4,176,486			
57	30 Nov 23	4,347,059			
58	31 Dec 23	3,781,168			
59	31 Jan 24	3,858,196			
60	29 Feb 24	3,562,680	3,562,680	3,562,680	3,562,680
61	29 Mar 24		3,645,607	3,534,039	3,757,175
62	29 Apr 24		3,377,633	3,252,797	3,502,470
63	29 May 24		3,121,447	2,984,577	3,258,317
64	29 Jun 24		3,648,618	3,500,648	3,796,589

Forecast Sheet

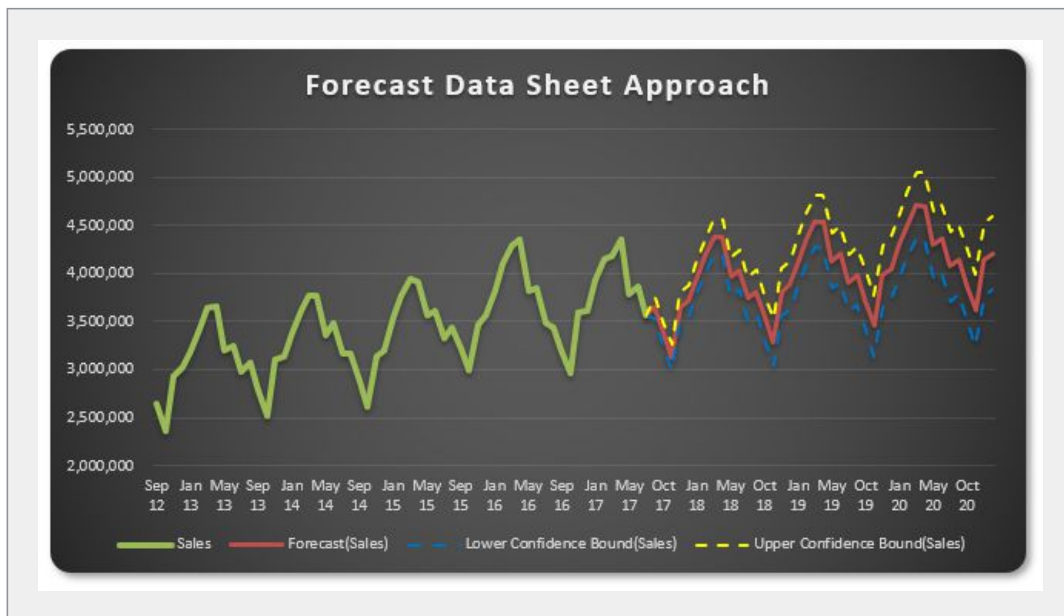
This table contains a copy of your data with additional forecasted values at the end.

You can manually edit the forecasting formulas in this sheet, or return to your original data to create a different forecast worksheet.

Got it!

With a little finesse, you can create a simple, easy-to-read chart in seconds that fits in with your corporate branding — see an example in the screenshot "Chart Aligned to Corporate Branding".

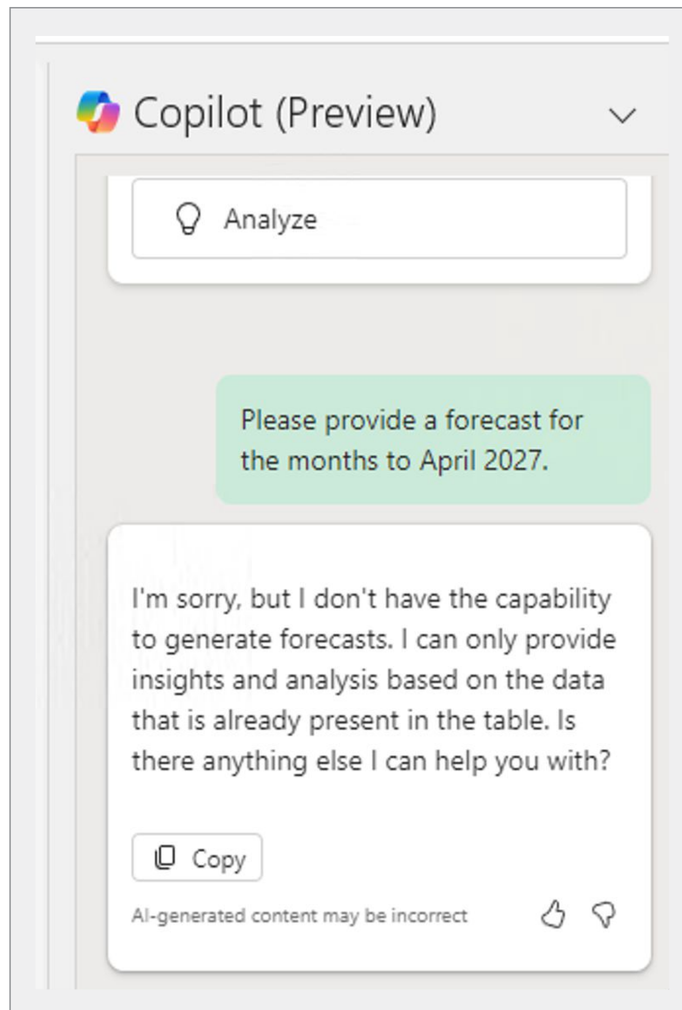
Chart aligned to corporate branding



Word to the wise

You should consider analysing your forecasting as you use this method. Since this approach takes considerably less time than archaic, conventional methods, analysts are more likely to reforecast more regularly. I would recommend just a very simple computation to begin, calculating the standard deviation of the variance sample (using STDEV.S) and checking to see whether the standard deviation becomes smaller over time.

Finally, in this day and age where artificial intelligence (AI), chatbots, and large language models (LLMs) seem to be all the rage, you might be wondering why I haven't discussed forecasting using these "latest and greatest" tools. Surely they will make predictions simple? Sadly, not yet; the fact is, they are just not ready. Whilst they excel in summarising textual data, their numerical literacy is still evolving. ChatGPT is a text-based language model, not a calculator, and Microsoft's Copilot is not yet ready to cooperate, eg:



As it says, it does not yet "have the capability to generate forecasts". However, do not give up on these tools. I am sure they will be there to assist in the not-too-distant future. ■

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.*

PHOTO BY GRADYREESE/GETTY IMAGES

7 things to consider before (and during) a holiday from work

To make the most of a holiday from work, prepare a task list, communicate with stakeholders, and develop an action plan if things go wrong while you're away.

By Rhymer Rigby

Holidays are supposed to be about rest and relaxation. But preparing to go on holiday can be one of the most anxiety-inducing parts of your job. There's so much to worry about when you are away, ranging from clients to deadlines. Failing to prepare can ruin a much-needed break. So how do you ensure that your mind isn't on the job when you're on the beach?

Get in the right mindset

You are not short-changing your employer when you go away. Rather, paid holidays are part of your contract — just like a bonus or healthcare insurance — and you should take them. Furthermore, it's good for you to take time off from work. You will return to your job refreshed and relaxed and better equipped. So, you need to take the best vacation you can.

Create a task list

Make a list of all the tasks that you generally do and any additional ones that need to be done in the lead-up to and during your holiday. Now, divide these into things that must be finished before you go, tasks that can be delegated, those that can wait until you return, and things that will require your attention while you are away. Be ruthless — the last of these should be as short as possible.

Next, tackle the first two parts of the list. Get started on the tasks you can finish yourself before your holiday and make plans to hand over the work you can't finish (such as time-critical tasks) to members of your team. If you are a manager, the second part of this is a useful exercise. It's an opportunity to give your people responsibility, stretch their roles, and show them that you believe in them. There are benefits for you, too — you're developing and empowering your people and learning to let go.

Identify a trusted peer

There may be some critical tasks you cannot delegate — such as a meeting with a senior executive or an important client. Here you should seek the help of a peer. Find the right person; you want someone you trust to do a good job, so you won't be anxious when you should be enjoying yourself. Don't worry about asking people for favours in this way — it's quite flattering (you are effectively saying you trust their judgement), and you can return the favour at a later date. It helps build working relationships, too.

Communicate

Don't just tell your colleagues and peers you'll be away. Make a list of all your important stakeholders — clients, customers, and suppliers — and tell them, too.

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Constantly checking in makes you look like a micromanager. Going away for two weeks and coming back well-rested and with some good stories makes you look confident and in control.

Develop a 'problem' plan

Set out a plan for if things go wrong. Think it through strategically with your team and other stakeholders. You might have three levels. The first is problems that can wait until your return. The second is problems that need to be dealt with by your deputy or by a colleague. The third is problems that they can call you about.

The idea here is that you are contactable, but only if the situation is serious. You have to make it clear that all other options be considered before they contact you.

If you really have to take a call or attend to a task while you're away, block out time to do this — say a morning — in your holiday and only deal with the task or call in this time. Do not let it creep into the rest of your holiday.

Set up an out-of-office autoreply

Your out-of-office message really only needs three critical pieces of information. These are that you are away, the date you return, and another contact if the matter is urgent or important. For the reasons mentioned above, you should not direct people to contact you if it's urgent or important, because individual definitions of these vary widely. If it really matters, the colleague whose details you've given will get in touch with you. The choice of whether to say, "I'm on holiday", or the slightly starchy but very normal, "I'm on annual leave", is an individual one. The same applies to your voicemail message.

Regulate checking messages

Ideally, you wouldn't check your work phone at all. But many people find this impossible. So set yourself a rule. Say you'll check it first or last thing in a day and respond only to urgent messages. You do not want to be checking it every 15 minutes on your sun lounger — you need to disconnect. This, incidentally, is why it can be good to go on holiday halfway round the world where time zones mean that there's no point in checking email obsessively.

In a similar vein, sign out of work-related social media. Instead of posting thought leadership on LinkedIn, post waterfalls and white-sand beaches on your Instagram. You'll be surprised how quickly the urge to scroll through LinkedIn disappears. Finally, invest some time in choosing books to read before you go — fiction or nonwork nonfiction. You want to have the new John Grisham rather than the latest business book from Tim Ferriss.

If you're struggling with all this, think about how colleagues perceive you. Constantly checking in makes you look like a micromanager. Going away for two weeks and coming back well-rested and with some good stories makes you look confident and in control. Also, a week or two is no time at all. Nobody is irreplaceable for a fortnight.

Finally, clean your desk before you leave. You don't want a pile of papers and a couple of dirty coffee cups standing in for you while you're away. ■

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Articles

"Protect Staff's Mental Health With True Time Off", *Journal of Accountancy*, 17 December 2021

"Preparing for a Leave of Absence", *FM* magazine, 11 February 2019

Podcast episode

"Distracted by Digital Communication? How to Regain Control", *FM* magazine, 15 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.*

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INSTITUTE NEWS

Implementation support for IFRS sustainability standards

AICPA & CIMA, together as the Association of International Certified Professional Accountants, have become a member of the IFRS Foundation's Partnership Framework and a contributor to the standard-setter's Knowledge Hub. The two initiatives are designed to raise global awareness about the IFRS sustainability disclosure standards and support their implementation.

The Partnership Framework was formed at COP 27 in late 2022 and is designed to smooth implementation of global sustainability disclosure requirements. More than 35 private and public organisations are part of its network. The Knowledge Hub, launched at COP 28 in late 2023, serves as an online repository for thought leadership, surveys, and reports about sustainability disclosure standards.

Largest companies make progress on sustainability reporting and assurance

The largest global companies are providing more detail and breadth in their sustainability reporting and making progress on obtaining assurance on those disclosures, according to a report from the International Federation of Accountants (IFAC) and AICPA & CIMA. The study, an annual benchmark that now includes 2022 data, also found that the use of varying sustainability standards and frameworks continues to make it difficult for investors, lenders, and other stakeholders to find consistent and comparable sustainability information.

The report, *The State of Play: Sustainability Disclosure and Assurance 2019–2022 Trends & Analysis*, highlights the need for companies worldwide to move towards a global system of sustainability disclosure requirements.

"While we're moving toward commonly accepted global standards, some 87% of companies continued to use a mix of standards and frameworks for reporting," said David Madon, IFAC's director of sustainability, policy, and regulatory affairs. "That leaves investors and lenders in a bind when it comes to having consistent, comparable, and high-quality sustainability information at hand."

TOP: PHOTO BY ENDRU/ADOBE STOCK

Academic research projects update

Following regional calls for proposals in Southern Africa and Central and Eastern Europe, the CIMA General Charitable Trust has awarded grants for these research projects:

- Biodiversity Reporting: A Comparison of Listed Entities in the UK and South Africa, Warren Maroun, Ph.D., professor, University of the Witwatersrand, South Africa.
- The Use of Business Intelligence and Analytics by Management Accountants to Create Value Through Improved Decision-Making, Elize Kirsten, ACMA, CGMA, senior lecturer, University of Pretoria, South Africa.
- Corporate Digital Responsibility — Measurement and Reporting, Ewelina Zarzycka, Ph.D., associate professor, University of Lodz, Poland.
- Readiness of Companies for the New ESG Reporting Requirements: The Case of Czech Republic and Estonia, Jiří Strouhal, Ph.D., professor, Skoda Auto University, Mladá Boleslav, Czech Republic.

These regional calls support local management accounting academic research and help ensure that research and research outputs are relevant to local markets.

CIMA and South African government body deliver on IFRS training

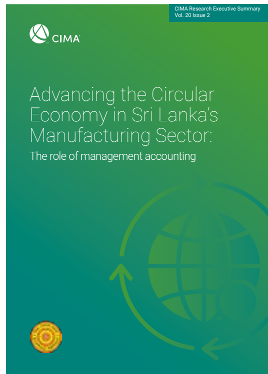
A collaboration between CIMA and South Africa's Finance and Accounting Services Sector Education and Training Authority (FASSET) has seen more than 600 accounting and finance professionals in South Africa receive training on the International Financial Reporting Standards (IFRS) since November 2023.

The training, for finance and accounting professionals in the public and private sectors in South Africa, has been funded by FASSET as part of its Lifelong Learning initiative.

BOTTOM LEFT: PHOTO BY RAILWAYFX/ADOBE STOCK; MIDDLE: IMAGE BY SHABNAM/ADOBE STOCK

AICPA & CIMA's Contemporary Issues in Management Accounting series

The following research executive summaries have recently been published in the series of academic research supported by CIMA.



Advancing the Circular Economy in Sri Lanka's Manufacturing Sector: The Role of Management Accounting

This study, led by senior lecturer Nuwan Gunarathne, ACMA, CGMA, Ph.D., from the University of Sri Jayewardenepura, Sri Lanka, investigates the implementation of circular economy practices and circular economy business models (CEBMs) in five local companies within the tea, newspaper printing, and food and beverage manufacturing sectors.

The research found that for CEBMs, management accounting serves as an important tool for management control and support, stewardship, performance measurement, and decision-making, but there is also a need to develop additional accounting tools to support CEBM implementation.

The report also sets out the implications for various stakeholder groups, including practitioners, policymakers, and regulators, and recommendations for each group to consider and implement.

Corporate Sustainability Performance Management in the Context of the United Nations' Sustainable Development Goals and the Role of Management Accounting

This study, conducted by a research team from Germany's CBS International Business School and Bochum University of Applied Sciences, investigates corporate sustainability performance management practices at five multinational German corporations: BASF, Deutsche Post DHL, Evonik Industries, Merck, and Vaude.

The study reveals that management accountants and the accounting profession as a whole play a critical role in supporting sustainable development and the SDGs and that they are able to drive an organisation's sustainability performance in six specific areas: internal and external reporting, investments, data management, carbon management accounting, and business enablement.

It also proposes a maturity model of corporate sustainability performance management and management accounting's involvement, comprising four levels: (1) external reporting, (2) strategic thinking, (3) company-wide integration, and (4) business partnering.

Supply Chain Performance Measurement: Practices for an Alignment With SDGs

This study follows research undertaken by a team from the Università Politecnica delle Marche and Sant'Anna School of Advanced Studies in Italy.

The research project employed a multiple case study approach to explore how organisations can integrate the UN's Sustainable Development Goals (SDGs) and their associated targets into their supply chains. Additionally, the study examines methods for measuring and assessing the impact of these initiatives on the SDGs.

The report offers valuable insights to companies and management accountants on the opportunities and challenges related to SDG integration within supply chains.

AICPA & CIMA win learning technology award

AICPA & CIMA have received the Brandon Hall Group Gold award for Excellence in Technology. The award, recognising the organisation's SMART Learning Transformation framework, was in the Best Advance of Learning Management for External Training category.

The SMART Learning Transformation framework is incorporated within AICPA & CIMA's new Learning Management System (LMS) that offers members, students, and accounting and finance professionals a wide spectrum of learning, including more than 2,500 courses and webcasts.

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Small business is big business

Businesses other than large corporates are a key driver of global economic growth. Micro (in the UK, defined as having fewer than ten employees), small (fewer than 50), and medium-size (fewer than 250) enterprises make up about 90% of all businesses globally. According to the UN, they also account for 60%–70% of global employment and 50% of GDP.

The Organisation for Economic Co-operation and Development describes recent shocks to SMEs' growth including, how financing for SMEs became more difficult in 2022, with increased cost and tighter flow of debt financing (Latin American markets excepted) due to higher interest rates and banks' greater risk aversion.

Support for SME growth comes from a range of directions, though, including the World Bank and governments: The UK government named 2024 as "Year of the SME". The global contribution of micro, small, and medium-size enterprises to the achievement of the UN's Sustainable Development Goals is marked on 27 June each year.

A shop displays dresses for sale in Delhi, India.

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