

More Than Bean-Counters

Boards don't need reminding that the Finance function is critical to the strategic success of a business. Capital raising and allocation, funding, modelling, performance measurement, external reporting, treasury risk management, cash flow forecasting, cost management, budgeting, project monitoring...the list of critical roles and responsibilities just goes on.

But how often do Boards look at how the finance function is playing this strategic role across the business? Is it really working at the heart of strategic decision-making – and seen as strategic by others? And how can they reassure themselves that Finance is contributing as much as possible to business success??

We are working with AICPA & CIMA to provide Boards and the CFO with a tool (Thinking Finance®) which gives insight into how Finance is performing against good practice standards – and what the rest of the organisation thinks about the value Finance brings. In developing our thinking for this, some thoughts for directors became clear. Here we outline a few good practices for Boards, along with some things to avoid.



Good practices to consider...

Make the time to set out what the Board sees as Finance's generic role in helping deliver strategic objectives. Of course, that involves hearing from the CFO – along with the CEO and other executives who depend on Finance's performance. But it also means drawing on the experience around the table of good examples of organisations where Finance has made a strategic difference.

Understand how the CFO sees the role of Finance in delivering on the strategic plan. For starters, this covers its contribution to forming the budget and what it needs to do to help the rest of the organisation deliver on this. But it also means looking much further ahead by asking some fundamental, strategic questions. What type of finance function is needed to support strategic success? And how does it need to be resourced? What skills will

Things to avoid...

Just presuming that the organisation – and the Board – already appreciate that Finance can, and should, have a strategic role. It may not even have really been discussed at the executive committee – sometimes its role is just assumed. There are many different facets to the Finance contribution and these will vary depending on the organisation structure and both the financial and the business strategy. Does the Board actually understand how Finance works in this particular organisation? Does it have a clear picture of how it fits with other functions? And if not, can it be clear on how it needs to hold Finance and the CFO accountable for delivery?

Carrying on thinking that today's Finance function is going to be what's needed for the future. It probably won't – and might look quite different. For a start – what is needed to support the strategy? If it's quite different, Finance will need to adapt and possibly support the organisation in a different way. And fundamental changes in technology are likely to have a transformative effect on financial and management accounting and financial processes. Is Finance looking far enough ahead? Has it spotted the opportunities? Is it already adapting?

<p>be needed? What technology will provide the platform for its work?</p>	
<p>Hear from the CFO how he/she assesses the performance of Finance as a function. That means, as a minimum, how well it is working versus its stated goals. But also it's about how far it is meeting stakeholder expectations. And understanding in how management go about ensuring that financial and management accounting systems and financial processes are fit for purpose, today and tomorrow.</p>	<p>Just taking it as a given that, if the numbers turn out to be right and everything adds up, that Finance must be doing a good job. The numbers matter of course – but the audit committee's interest in financial reporting controls isn't going to tell you that Finance is meeting the strategic needs of the business.</p>
<p>At least annually, get a report from the CFO on the status of Finance – a view on where things stand based on the CFO's objective strengths/weaknesses analysis and on stakeholder feedback. In particular, the quality and development of its people need to be laid out.</p>	<p>Failing to make time in the board agenda (at a strategic level) and the audit committee agenda (at a more detailed, "warts and all" level) to take stock. We rarely see on audit committee agendas the issue of Finance function effectiveness, despite its centrality to so many areas of governance. Often, opinions are based on a general feeling from interaction with the CFO and financial controller over the course of the year supplemented by the external auditor's feedback. Those are valid sources of assurance but are unlikely to be enough without reinforcement from perspectives wider than financial reporting controls.</p>
<p>Understand Finance's approach to cash management. The refrain "it's all about cash" is often heard. But how many Boards have a clear picture of the main cash related risks and how these are managed by Finance?</p>	<p>Not having a clear picture of the risks to projected cash flow, the extent of resilience available from realisable assets and committed facilities, and the contingency plans to manage for cash if necessary. This should be a regular feature of Finance reporting to the Board, with changes being highlighted.</p>
<p>Take the main strategic initiatives and understand how Finance is underpinning them to help gain traction and ultimately achieve success. How does the Board know that Finance is really driving through the initiative? Does it have to wait until it starts being reflected in somewhat "noisy" figures? Or major capital projects: how is Finance making sure the governance and monitoring is sound?</p>	<p>Assuming Finance and the supporting management processes and systems are in place and effective in having an impact across the organisation. It's difficult to judge from the centre, particularly from the Board's detached position. The CFO needs to look for a way of giving directors confidence that the impact is being felt in the parts of the organisation where it matters.</p>
<p>Understand who has responsibility for non-financial data: how far does this sit with Finance or with the operating units? And who is accountable for financial projections based on operational forecasts? It is a critical aspect of managing reputation risk and investor perceptions.</p>	<p>Only looking at the outcomes of the forecasting process rather than understanding how the projections emerge. All too often the hit to reputation or credibility come in this area but it is not clear where responsibility lies. A board should periodically at least kick the tyres of the process, rather than just discussing what went wrong when credibility has been dented.</p>
<p>Independent Audit has just released Thinking Finance®, the online self-assessment tool designed to help CFOs assess the strategic impact and operational effectiveness of the finance function. The built-in questionnaires are based on AICPA & CIMA's General Management Accounting Principles – and we work with you to provide expert and independent interpretation of the results from a strategic perspective as well as how you conform with the best practice Principles. To find out more, contact Nick Kolomnin on +44 20 7220 6580 or nick.kolomnin@independentaudit.com.</p>	