Control
Topic Gateway Series No. 36

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About Topic Gateways

Topic Gateways are intended as a refresher or introduction to topics of interest to CIMA members. They include a basic definition, a brief overview and a fuller explanation of practical application. Finally they signpost some further resources for detailed understanding and research.

Topic Gateways are available electronically to CIMA Members only in the CPD Centre on the CIMA website, along with a number of electronic resources.

About the Technical Information Service

CIMA supports its members and students with its Technical Information Service (TIS) for their work and CPD needs.

Our information specialists and accounting specialists work closely together to identify or create authoritative resources to help members resolve their work related information needs. Additionally, our accounting specialists can help CIMA members and students with the interpretation of guidance on financial reporting, financial management and performance management, as defined in the *CIMA Official Terminology* 2005 edition.

CIMA members and students should sign into My CIMA to access these services and resources.

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Definition and concept

Control is defined as:

‘In management accounting, control usually means ensuring that activities planned and undertaken lead to desired outcomes.’

*CIMA Official Terminology, 2005*

Internal control is defined as:

‘The management system of controls, financial and otherwise, established in order to provide reasonable assurance of:

(a) effective and efficient operation
(b) internal financial control
(c) compliance with laws and regulations.

Good internal control systems should make accounting records more reliable and the occurrence of fraud and error more difficult.’

*CIMA Official Terminology, 2005*

Internal controls which are performed by management are called management controls.

Management control is defined as:

‘All of the processes used by managers to ensure that organisational goals are achieved and procedures adhered to, and that the organisation responds appropriately to changes in its environment.’

*CIMA Official Terminology, 2005*

Control systems which do not include corrective action are referred to as open loop systems. It is more usual that systems do include provision for corrective action. These are known as closed loop systems, of which there are two types, feedback control and feed forward control.

Feedback control is defined as:

‘Measurement of differences between planned outputs and actual outputs achieved, and the modification of subsequent action and/or plans to achieve future required results. Feedback control is an integral part of budgetary control and standard costing systems.’

*CIMA Official Terminology, 2005*
Feedforward control is defined as:

‘Forecasting of differences between actual and planned outcomes, and the implementation of action, before the event, to avoid such differences.’

*CIMA Official Terminology, 2005*

Control has a strong overlap with budgets and corporate governance, so readers might also like to refer to those topic gateways. They are available at:

[www.cimaglobal.com/mycima](http://www.cimaglobal.com/mycima)

[Accessed 10 March 2008]

**Context**

In the current syllabus, students will learn and may be examined on this topic in: Paper P1, Management Accounting Performance Evaluation; Paper P3, Management Accounting Risk and Control Strategy; Paper P5, Integrated Management; Paper P6, Management Accounting Business Strategy; and Paper P9, Management Accounting Financial Strategy.

**Overview**

Management controls are internal controls which are performed using management tools to help managers achieve results. They are not isolated measures, but are integral to organisational processes of planning, budgeting, management, accounting and auditing.

The control system is a systematic approach which determines whether managers are doing what they planned. It fits into the following universe of managerial activities:

![Control System Diagram](image-url)
In general, controls are used to improve:

- congruence of strategy and plans
- accountability
- integrity and ethical behaviour
- effectiveness.

There is also a specific set of controls which relate to the acquisition, use and disposal of assets. The objective of all controls is to minimise risk, waste and fraud.

**Application**

The importance attached to the existence and operation of these controls is demonstrated by the interest shown in them by various corporate governance regimes. There are various requirements for management to report on the state of these controls to shareholders.

For example, US listed company management must comment on the existence and effectiveness of internal controls over their financial statements under S404 of the Sarbanes-Oxley Act. In the UK, the Turnbull requirements oblige directors to report that they have conducted a review of the effectiveness of all internal controls. However, they do not have to report the results of that review, although they do have to disclose the process followed and confirm that necessary actions are being taken to remedy any weaknesses. Please see the *Corporate Governance* topic gateway. Some organisations may also have other regulators, monitors, funders or those with an interest in the extent and robustness of their controls.

Both internal and external audit test the existence and adequacy of controls such as procedures manuals, levels of delegated authority and separation of duties. They also examine the adequacy of policies and processes related to control.

Control has rather pejorative associations for some, implying the inflexible policing of behaviour or restrictions on activities. Many users prefer the term 'co-ordination' which seems to suit a supportive, enabling role for management. However, for corporate governance and audit purposes, the term 'control' will continue to apply.
Purpose of control

Controls exist for a number of purposes:

- Establishment of performance standards. These need to be clearly stated and verifiable. Quantitative standards, for example, budgets, are easiest to measure against. However, qualitative targets can also be specific if expressed as desired outcomes.
- Performance measurement. This requires relevant, adequate and timely information.
- Comparison of actual performance against target.
- Initiation of appropriate corrective action. Action may only be required when the deviation is significant. This is also known as management by exception.

Types of control

Management information. The information needed to enable the control function is produced from many sources, and is often standardised. This data can be generated from management information systems (MIS), project management software, HR information systems and accounting systems. Organisations rely on a variety of reports including financial reports, status reports and project reports to monitor and report progress across the range of management functions. They include:

- marketing – customer profitability analyses, market surveys
- human resources – sickness absence trends, turnover statistics
- management accounting – analyses of costs, budgets and profit forecasts.

Evaluations. This is a specific type of management information which deserves a separate mention because it is so central to measuring performance. Evaluations involve collecting and analysing information to make a decision. Activities, departments, teams or individuals can be evaluated. The most common evaluations include employee performance appraisals and post-completion audits which identify lessons from completed projects.

Performance management in general. Performance management builds on performance reported by measurement or evaluation tools. The purpose is to ensure that the results are used to inform and motivate management action. Performance management is a continuous process which involves the entire organisation, not an isolated event.
Delegation. This is a method of achieving through collaboration. Here, a manager or other delegator assigns responsibility for a task to an employee, together with the authority to acquire the resources. Usually the delegator allows the employee some latitude to decide how to complete the task. Delegation is therefore more about ceding control rather than imposing it. However, the delegator retains the ultimate accountability for the task being completed to the agreed standard.

Financial management. It has already been noted that the budget is one of the most common quantitative standards of performance. However, all financial information is used for monitoring the progress of plans and resource consumption. This is regardless of whether the statements are categorised as financial accounting information (balance sheet, income statement, cash flow statement) or management accounting information (budgets, forecasts, ratio analysis or responsibility centre accounting).

Quality control and operations management. These alternative approaches to control focus on tangible attributes like quality rather than financial values. Quality and control share many similarities – quality is also commonly pursued using the ‘establish standards-measure actuals-compare and correct’ routine. See the above section on purpose of control.

Policies and procedures. These exist to guide behaviour or ensure compliance with the law. Policies and procedures communicate what behaviour is expected or not tolerated from employees. They also stipulate any legal or regulatory context which requires or prohibits any behaviour. These might include practices which are held to be discriminatory, or which breach health and safety or data protection legislation. Procedures also seek to ensure that routine activities are carried out efficiently by describing how they are to be done.

Further information

CIMA publications


**Articles**


There are several relevant subject areas under which to browse BSC, including management controls and command and control systems. For internal controls, search under ‘Auditing, Internal.’

Challagalla, G. and Shervani, T. *Dimensions and types of supervisory control: effects on salesperson performance and satisfaction*. *Journal of Marketing*, January 1996, Volume 60, Issue 1, pp 89-105. This research comments on the conflicting evidence about the effectiveness of controls.

Seddon, J. *Freedom from command and control*. Management Services, Summer 2005, Volume 49, Issue 2, pp 22-24. This article argues that companies should be regarded as systems. Managers should be encouraged to push for change and investigate new methods of achieving objectives.


**Case studies**


Som, A. *Ready for prime time?* European Business Forum, Winter 2006, Issue 27, pp 59-61. Describes the turnaround of the French TV group Canal+, which had lost control of costs. The new management team initially felt that changing staff behaviour was impossible, and instead sought to impose strict controls which proved unsuccessful.
E-book

Available on NetLibrary www.cimaglobal.com/mycima
[Accessed 10 March 2008]


Management accounting guidelines

[Accessed 10 March 2008]

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Reading lists

Fraud Risk Management

Performance Measurement and Management