

# Management Control System Guide

Listing Guides





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# Preface



Among the assets not visible in the financial statements, which are capable of conditioning the ability of a company to observe the principle of economy over time, one must take into consideration the wealth of the operating systems. These systems are those by means of which the running procedures of the organizational structure of a company are established. These include the strategic planning systems and the management control systems which have shown themselves to have particular significance with regards to the company's operations.

Specifically, the latter sees its key nature emphasised due to the point of contact and the partial overlapping with the internal auditing system which, although separate as a result of its predominant objective of checking regulations, procedures and conduct, takes on particular value within listed companies.

Internal auditing, in fact, represents the main instrument for safeguarding the company's net worth, the minority interests and the stakeholders. This concept is clearly expressed in the Code of Conduct for listed companies, in compliance with international practices<sup>1</sup>, it defines the internal auditing system as "the series of processes targeted at monitoring the efficiency of the corporate operations, the reliability of the financial information, the observance of the laws and regulations, and the safeguarding of the company assets". In this sense, internal auditing is associated with the subject of governance and the search for effective methods for protecting the minority shareholders.


The main objective of the management control system is, by contrast, to help the company's senior management to guide the company towards its strategic objectives and, specifically, make choices in relation to the creation of economic value. This Guide, by way of completion of the matters already stated in the Code, therefore has the purpose of providing a reference standard for the companies being listed so that they plan management control systems aimed at the direct safeguarding of the aim of creation of economic value. In this sense, the management control system must be considered as a part of the more far-reaching Management System, whose purpose is to manage and direct the company towards the chosen strategic and profitability objectives, thereby minimizing the business risk.

Alongside this, they must anticipate other operating systems, also considered as part of the management system, which make it possible to put together a series of decisions in advance with respect to the development of operations (the strategic planning systems) and which carry out reinforcement action with respect to the achievement of the corporate objectives (the reward system, career and incentives).

The management control system is therefore separate from the internal auditing set up and even if there is no lack of points of contact between the two systems and they can mutually supplement one another, it is often advisable that the instruments, procedures and operators via which they are managed are different.

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<sup>1</sup> From the work of the Committee of Sponsoring Organizations of the Treadway Commission (COSO report): "The Internal Auditing System is a process, carried out by the Board of Directors, by the executives and by the other operators of the corporate structure, which proposes to provide reasonable certainty regarding the realization of the objectives falling within the following categories: efficacy and efficiency of the operating activities; reliability of the financial statement information; compliance with the laws and regulations in force".



Thus, for a correct comprehension of the role which the management control system is required to perform in-house, it is appropriate to distinguish between the control activities in a strict sense and the instruments which are needed in order to carry them out effectively. Among these, reference is made to the executive information system which must comprise a well-constructed technical accounting series of instruments if it wishes to provide the information which is needed currently in order to make effective executive decisions. Therefore, it is not by chance that over the most recent years, the data processing instrumentation has been enhanced by means of innovative proposals which are increasingly in keeping with the changed competitive scenario. Three are highlighted from among the most recent ones:

- a) the dynamic simulation models (P. Senge, 1990), which have bygone origins in the work of Jay Forrester (MIT, 1968) and which by means of their search for the circular cause/effect relationships make a significant organizational learning effect possible. These models are valuable for supporting the strategic planning and those reflections which wish to give themselves long-term horizons;
- b) the Activity based costing (calculation of the costs by activity, Kaplan & Thomson, 1987; P. Drucker,

1995), which suggests reporting the costs by activity/operational processes and which, therefore, is unavoidable for the companies which wish to introduce management not by functional areas, but by processes and/or by projects;

- c) the Balanced scorecard (R.S. Kaplan, D.P. Norton, 2000 & 2002), which in order to be replenished by reasonable costs requires a particularly effective MCS. This instrument, in fact, not only presents the key performance indicators, but arranges them into four interrelated perspectives. The classic perspective of the performance, observed with regards to its economic-financial results, is supplemented by the perspective of the customers, on which said results directly depend.

This in turn depends on the perspective of the internal management processes, by means of which the operating performances are analysed and on the learning/innovation perspective. Many companies abroad have already adopted this instrument, at least at annual level, in order to draw up reports which communicate their performances on the basis of these four dimensions to the financial community, interested not only in the greater or lesser creation of economic value, but in receiving information on the trend of the aspects determining the value.

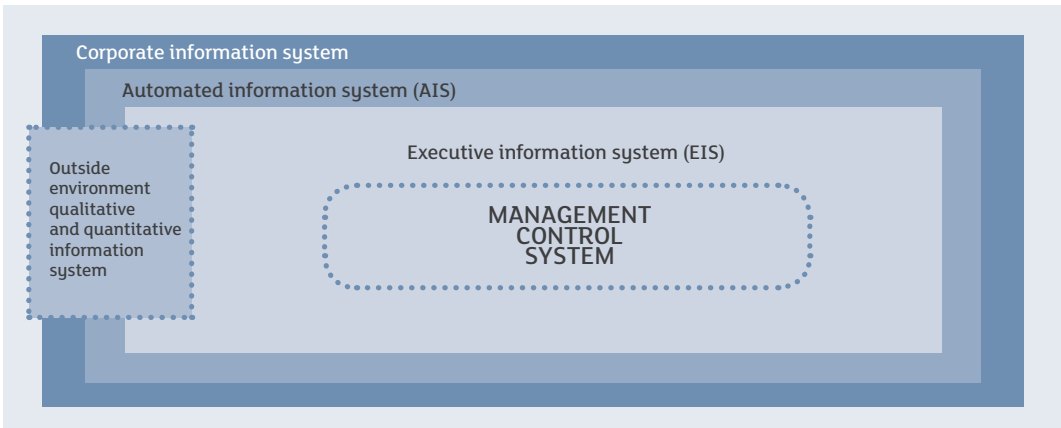


TABLE 1: reference scheme and terminological specifications

In the same way, the executive information systems (EIS) or Management information system, part of the same extensive corporate information systems<sup>2</sup> (see the diagram presented in Table 1), have evolved in the direction of maximizing the efficacy of the decision-making process by both overcoming the redundancy and the inconsistency of the information and the reports produced by computer, and by resorting to solutions which the evolution of information technology today makes feasible at reasonable costs: a widespread use of the Decision Support System (DSS), recourse to Business Intelligence systems, the creation of databases relating to customers, suppliers, staff and their skills or even more sophisticated applications such as the drawing up of reports for the assessments of the intellectual business capital.

An observation now seems necessary: the information provided by the annual statutory financial statements is no longer sufficient for describing the effective or potential ability of a company to implement virtuous systems capable of creating economic value. New information is necessary.

Those companies who have made investments in management control systems, also involving considerable sums and in tune with its mission and its competitive strategies, besides having invested in invisible assets which are fundamental for survival, have increased their “wealth” of organizational solutions and have probably set the basis for enjoying a competitive advantage.

Alberto Bubbio\*

<sup>2</sup> The corporate information system can be defined as “the series of the information flows, produced by means of various methods, intended to support the company’s decision-making system and satisfying the requirements of third party economies in relationships with the company” (A. Rugiadini, 1973). Again according to Rugiadini, that part of the Information Systems which uses - for the management of the information - electronic data processing instruments (EDP technologies support) and communications methods of the same consistent with said instruments, must by contrast be defined as the Automated Information System (AIS). The Automated Information System, if its technical components (processing techniques, machines, software) are studied, identifies with the data processing system (SICO). One can thus note that the EIS, mainly included within the Automated Information System, is an information sub-system with respect to the more extensive Corporate Information System and may also anticipate the use of information not handled via electronic processing instruments.

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# 1. The Management Control System: summary of the main characteristics

This section contains indication of the main characteristics which a Management Control System (hereinafter MCS) should have in order to ensure, in observance of the specificities of the company and the company's organizational freedom, the achievement of the objectives defined by Articles 2.3.4, letter c) of the "Regolamento dei Mercati Organizzati e Gestiti dalla Borsa Italiana S.p.A." (Rules of the Markets Organized and Managed by Borsa Italiana S.p.A.) and the related Instructions. Therefore, it is useful to underline that the principles referred to can be interpreted as a useful term of comparison and an occasion for self-diagnosis for companies already listed as well.

Specially, taking into account the specific role which the control system assumes for the listed company, a number of key concepts are indicated below, indispensable for gaining one's bearings with regards to the activities for the planning and evaluation of an MCS.

## 1.1. Definition of the Management Control System

A wide variety of terms exists, both within an academic sphere and in company practice, for describing the control activities. Among these, the term "management control" probably represents the most well-known and widespread term in the vocabulary of business management and as such is the most conditioned by subjective interpretations. Moreover, the control procedures have changed over the course of the years showing preference from time to time for solutions targeted at solving the contingent operating needs. Understood in a "traditional" sense, for example, the management control emphasises the results of an economic-financial nature and only partly takes into consideration two problems emerging in business management: the gauging and handling of the decisive factors underlying the competitive advantage (consider, for example, customer satisfaction); the systematic monitoring of the outside environment.

The control which we wish to make reference to in this document is therefore also a strategic type of control which evolves with respect to the "traditional" model so

as to interpret and manage to its own advantage the environmental changes, prevent the insurgence of risks for the company and direct the conduct of the organization on a consistent basis with respect to the intentional strategy<sup>3</sup>. In other terms, the management control becomes strategic control when it calls, systematically and in advance, the attention of management to the strategic consequences of the daily operations.

The management control system, thus extended with regards to its boundaries, can therefore be defined as the structured and integrated system of information and processes used by management to support the planning and control activities.

This system must permit senior company management to position the company within the timescale and the competitive space so as to grasp any inadequacies which may possibly be detrimental for the economic, equity and financial results of the company.

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<sup>3</sup> The "strategic aims", as expressed in the "Strategic Plan Guide", represent the choices declared by management in relation to the field of activities of the company, the dimensional growth to be pursued and the role which is intended to be adopted in the competitive arena, while the "strategy pursued" identifies the effective positioning developed as a result of the choices and the action adopted in the past.

In detail, the MCS comprises three constituent elements:

- a series of planning and control activities targeted at pre-defining first and then monitoring the corporate performances;
- a set of technical-accounting instruments, planned in order to process information supporting the decision-making processes and the planning and control activities<sup>4</sup>;

— an information system intended to disclose the information, collected and selectively organized, so as to concentrate the information intended for the managers on the decisive factors of the corporate value.

Each component represents a sub-system, every one of which is complementary with regards to all the others and whose sole integrated consideration makes it possible to identify the Management Control System.

## 1.2. Objectives of the Management Control System

The primary objective of the MCS is to make all the relevant information associated with the planning and control functions available, so as to facilitate the development of these activities. In other words, the system is aimed at meeting the information requirements of management which depend to a large extent on the critical management processes and on determining factors for the value – the so-called value drivers – which in turn are the consequence of the key success factors and the risk factors of the individual business entity.

The key success factors (hereinafter KSFs) are the elements necessary for operating, at each stage of the Business Model, effectively and with results which are better than the competitors. Due to their relevance for the purposes of the corporate performance, therefore, they must be subject to constant monitoring by management.

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<sup>4</sup> By way of example:

**a) Control instruments (Advanced Management Accounting or Integrated Executive Accounting) are represented specifically by:**

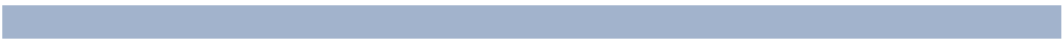
- analytical accounts;
- budgeting system;
- reporting system;
- variance analysis;
- non financial indicators;
- balanced scorecard.

**b) Planning instruments are represented specifically by:**

- executive matrixes;
- life cycle analysis;
- medium-term simulation models;
- swot analysis;
- experience curve;
- value chain analysis;
- benchmarking;
- re-engineering;
- analysis of the business areas portfolios.

The Decision Support System (DSS) and the Business Intelligence systems are in conclusion instruments specifically designed to assist the operational management and strategic management decision-making processes.





The risk factors (hereinafter business risks) are events whose manifestation may bar the company from achieving strategic objectives and as a consequence compromise the corporate continuity. For this reason, the business risk represents a key factor to be kept systematically under control during the management activities. These risks can be external or internal in origin:


- external risks: these usually depend on the alteration of an external factor which may lead to consequences on the company's ability to achieve its objectives (the risks associated with the competitors, the change in demand, technological innovation, the needs of the stakeholders and changes in legislation can, for example, be defined as business risks of an external nature);
- internal risks, which in turn can be classified as follows:
  - process risks, which pertain to the ability of the organization to guarantee the continuity of the operating processes, the safeguarding of the corporate assets and the availability of the resources necessary for the business activities (examples of this category include the risk of excessive/insufficient production capacity, the risk of product and manufacturing process obsolescence, the risk affecting the integrity of the information systems and the risk concerning the handling of the financial resources);
  - information management risks, which pertain to the ability of the company to obtain, process and analyse the information needed by management for developing the corporate strategy and guiding the company (examples of this category include the risks concerning information flows for the preparation of final accounts and forecast plans and for the analysis of potential investments).

It is via this information that those who carry out the management activities enter into possession, along with the economic-financial amounts, of the indicators as well, which explain the real reasons for the success or failure of the company. For this purpose, the traditional instrumentation (for example, the general accounts) may emerge as insufficient and must evolve to an adequate extent with respect to the new needs: therefore, the terms Strategic or Advanced Management Accounting or Integrated Executive Accounting (IEA) are divulged, the validity of which, in final analysis, is provided by the ability to support and motivate the managers for the achievement of the objectives, directing the conduct in tune with the mission and the chosen strategic policies. In this sense, the existence of an adequate MCS represents an indispensable instrument for supporting management during its management of the company, established to safeguard the purpose of creating value for the shareholders.

This having been stated and in connection with the purposes of the system, management control must encourage the achievement of the following objectives:

- a correct definition of the future scenarios supporting the strategic decisions and the forecast plans

Even though apparently independent, the definition of the strategic choices and the management control system are in effect closely linked. The activities for the formulation of the strategies, in fact, requires a complete analysis of the external context, the identification of the value drivers, the business risks and the KSFs, as well as the consideration of the positioning of the company with respect to the main management performance indicators. The MCS must permit the collection of this information, on the basis of which management



identifies its strategic objectives and defines the actions to be set in motion. The completeness, quality and adequacy of this information conditions the success of the corporate management.

- consistency between strategy and action and the alignment of the corporate organization with the business strategies

The adequate realization of the business strategy depends strictly on correct and widespread communication activities at the various company levels for the action to be undertaken, so as to ensure the correspondence between management decisions and the action set in motion by the corporate organization. For this purpose, the MCS must ensure the correct distribution of the information to the users.

- a correct assessment of the current performance, understood as the achievement of the corporate objectives, in relation to the historical trends and the budget expectations

Having identified the characteristics of the external environment, the risk and the success factors, and having formulated and communicated the corporate strategies, the company identifies the parameters suitable for gauging the achievement of its objectives.

Alongside the traditional economic-financial indicators, as anticipated, the MCS contemplates performance indicators specifically designed to monitor the main key risk and success factors of the company. These indicators are defined as key performance indicators (KPIs) and represent the quantitative basis with respect to which management adopts strategic decisions, gauges the company performances and guides the company towards the objective of maximizing the corporate value. The amounts can be both economic and physical in nature, rather than differing qualitative-quantitative

indicators. The sales revenue, for example, is an indicator of the output performance of a company, while the number of returns can be associated with the quality of the product. In the same way, the execution time of the orders is an indicator of the level of customer service, while the time involved in carrying out a production process or the single cost per output unit are indicators of the level of running efficiency of a plant.

The KPIs must before all else, therefore, possess an adequate distinguishing value and permit the rapid comprehension of the trend pertaining to the events subject to monitoring. Therefore, they must be selected bearing in mind the following criteria:

- Significance, in other words the suitability to represent significant amounts for the gauging of the value and the degree of achievement of the strategic objectives;
- Gaugeable nature, or the possibility of quantification by means of structured and unequivocal indices which can be connected to specific responsibilities;
- Continuity, understood as the comparability over time of the information produced and the gauging made;
- Definition uniformity, understood as the unequivocal nature of the process for the identification and description by type, calculation dimension and detection source.

It is important to remember that these indicators are specific for each company and depend on the type of business, the characteristics of the markets served, the degree of corporate complexity and the related monitoring requirements<sup>5</sup>.

- the possibility of deciding on a timely basis the necessary corrective action in relation to the forecast plans

The regular and frequent achievement of gaugings of the corporate performance produced by the MCS allows management to intervene on a timely basis for the purpose of changing and guiding the operations of the company in relation to the altered environmental conditions and internal operating context.

- a correct and in-depth corporate communication targeted outside the company (financial market, stakeholders, institutions and supervisory bodies, the media) in accordance with the timescales and the formalities required by current legislation and the financial market

The listed companies must communicate all the price sensitive events or all the events which occur within the sphere of the activities of the company, pertaining to the parties who control them and the related subsidiaries and which are suitable, if made public, for considerably influencing the price of the financial instruments issued by the company.

For this purpose, the accurate and correct gauging of the corporate performance and the systematic valuation of the results permit management to offer the market reliable, complete and timely information on the trend in corporate management, contributing

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<sup>5</sup> The KPI's for a number of significant sectors are listed below, by way of example and are by no means to be taken as complete:

**1. Airlines**

- Pax traffic (scheduled vs charter)
- Load factor per route
- Profitability per route
- Available Seat Km/Revenue per Seat Km
- Cabin/cockpit crew productivity
- EBITDAR
- Passengers per route
- Number of flights per route
- Catchment area per route
- Yield per route

**2. System Integrators & ASPs**

- Margins per job order
- Incidence of the value of the licences on the single products
- Trend and percentage-based breakdown between own products and those marketed for third parties
- Turnover and percentage-based breakdown of employees by area of activities (sales, research technicians, applications SW development technicians, etc.) and by professional profile (consultants, account managers/business managers, project managers, etc.)
- Average duration of contracts

**3. IT distributors**


- Percentage-based margins on sales by category and comparison with the market indices
- Customer concentration curve
- Stock levels and warehouse turnover rate
- Current gearing (coverage of short-term liabilities)
- Returns on sales

**4. Biotech companies**

- Number of drugs undergoing trial phase
- Stage of completion of clinical trials and deviations with respect to forecasts
- NPV per project
- R&D contract (vs royalties)
- Technology value (enterprise value - cash)

**5. Investment companies**

- Invested capital (cash, shares)
- Return on Invested Capital
- NAV (invested capital + cash)



towards establishing a systematic and transparent relationship with the financial community. This aspect represents an indispensable aspect for the companies

listed on the financial markets, since the investment and divestment decisions depend on the availability of the information available to the market<sup>6</sup>.

## 1.3. Parties responsible<sup>7</sup>

### 1.3.1. Board of Directors and Chief Executive Officer

Since the MCS is the system used by senior management to support the strategic decisions, generally falling under the competence of the Board of Directors, the latter is the body who more fully appreciates the efficacy and therefore who also assumes the end responsibility. This body fixes the lines of policy and periodically checks the adequacy and effective functioning of the system, ensuring that the main corporate risks are identified and handled in an adequate manner. Specifically, the Board of Directors approves the Internal Descriptive Document of the MCS which launches the due diligence phase described in the following Section 2.

It might be appropriate for the Board of Directors to assign the Chief Executive Officer the responsibilities pertaining to the adequacy of the information produced by the system when compared with the information requirements of management, with particular reference to the identification of the corporate risks, the selection of the KPIs and the structure of the reporting system. The Chief Executive Officer also appoints one or more individuals Responsible for Internal Auditing entrusted with co-ordinating and organizing the internal auditing activities and who, when carrying out their tasks, could also be vested with responsibilities concerning the MCS. In this event, it is opportune to remember that normally these Managers do not depend hierarchically on any operations manager and carry out their duties directly on the staff of the Chief Executive Officer, reporting on the work to the Internal Control Committee and statutory auditors as well.

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<sup>6</sup> For an in-depth examination of the principles linked to the improvement of the information on the listed companies and to the various occasions and methods of disclosure, see the Guide for disclosure to the market, Forum ref. on corporate disclosure, June 2002.

<sup>7</sup> It is appropriate to remember that the new regulations for joint-stock and co-operative companies present some important innovations. In the first place, on a similar basis to the matters already anticipated by the TUF for listed companies, the reform generalizes, also for companies not listed, the distinction between the accounts auditing entrusted to an external auditor and the audit "on the administration" entrusted to an internal body. In second place, the reform allows the shareholders to opt, in the Articles of Association, for one of three differing models of administration and control: the traditional model, characterized by the presence of a Board of Directors and a Board of Auditors; a dualistic model inspired by German experience and the monistic model inspired by the Anglo-Saxon corporate governance systems. The default model, which is applied in the absence of differing provisions in the Articles of Association, is that currently in force and to which this document makes reference. Furthermore, shareholders are reminded that the principles expressed will be co-ordinated, also in light of a reconsideration of the subject matter, with the new provisions introduced by the reform.

In observance of the procedures for the handling of confidential information adopted by the Board of Directors, the Chief Executive Officer will also be responsible for guaranteeing the disclosure of the information both inside the company, in order to permit full alignment of the organization with the strategic action decided by management, and outside in order to provide transparent, complete and timely financial information to the shareholders, the market and the supervisory authorities.

### **1.3.2. Board of Auditors**

From the outset of trading of the shares, the role of the Board of Auditors changes in accordance with the matter required by Italian Legislative Decree No. 58 dated 24 February 1998, which disciplines the activities of companies listed on the Stock Exchange. In this sense, the function of overseeing the adequacy of the organizational structure and the internal auditing system assigned to the Board of Auditors also includes the MCS. The Board of Auditors therefore checks that the system is working and that it is constantly adequate with regards to the various corporate dimensions and the changed disclosure requirements.

For this purpose, the Board of Auditors is the recipient of the corporate reports produced by the MCS.

Furthermore, precisely in consideration of its supervisory functions, the Board of Auditors is the recipient of the analysis relating to the operations of the system, carried out both during the due diligence activities and after the checking of the correct implementation of the corrective action.

### **1.3.3. Internal Control Committee**

Within the companies who adopt the principles of Corporate Governance, the Internal Control Committee<sup>8</sup> assists the Board of Directors with the periodic checking of the adequacy and the effective functioning of the system and the identification and management of the main corporate risks. If, in fact, the Board is the last in line with regards to responsibility for the auditing and control system, it is effectively the Internal Control Committee (with consultancy based functions) which takes steps to check the activities put together by management and the internal auditing activities delegated to those responsible for internal auditing. In this sense, the Internal Control Committee represents the junction via which the relevant auditing problems can be handled and brought to the attention of the Board of Directors, permitting the latter to perform its monitoring tasks and set up the necessary corrective action on a timely basis.


### **1.3.4. Operations Manager**

The operations manager is the individual tasked with the on-going management of the system and normally coincides with the office of Finance Director, Administration Director or the head of planning and control and often shares this role with the head of the information technology division.

The activities of this individual include the formalization, the management and the periodic checking of the functioning of the system, in accordance with the lines of policy established by the Board of Directors. Furthermore, the operations manager must guarantee the propriety and the reliability of the information produced by the system and the functioning of the planning and control

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<sup>8</sup> It is necessary to state that the Internal Control Committee anticipated by the Code of Conduct is different from the "Committee for management control" anticipated by Article 2409-octies decies for the monistic system by the reform of company law. The specific tasks of the Internal Control Committee are indicated in Article 10 of the Code of Conduct, to which reference should be made for a more in-depth examination.



instruments adopted. When carrying out this task, the operations manager must necessarily avail himself of the collaboration of the individuals who are tasked with the production of the individual reports.

### **1.3.5. MCS reporting and information management instruments managers**

These are individuals who are responsible for the individual reports produced by the MCS and the compliancy of the same with the requisites required by the users in terms of quality of the information, frequency, reliability and timeliness.

Normally, these managers coincide with the office of division manager or department head and are themselves the users of the reports which they contribute towards producing. It is their task to forward the reports to the operations manager who will subsequently take steps to collate them, supplement them, check their compliance with the information needs of management and lastly distribute them according to the policies established. What is more, these individuals must also include the investor relations manager whose task, amongst other things, is to keep senior management constantly up-to-date on the information requirements of the financial markets and on the messages which originate from investors and the stakeholders in general.

## **1.4. Pre-requisites of the MCS**

The planning and/or assessment of the MCS must take into account certain minimum quality-related requisites necessary for ensuring the achievement of the objectives which it has been assigned (see section 1.2.).

### **1.4.1. Formalization**

The formalization pre-requisite must be satisfied with regard to the following aspects:

— **Procedures**

The procedures via which the MCS is created must be adequately documented and formalized so as to permit the users to obtain a clear understanding of the objectives, the functioning, the recipients of the information and the various managers of the individual components of the system.

— **Reporting**

The information produced by the MCS must be collated and organized in reports and made

available to the recipients and the users (see subsequent paragraph 1.4.2.). The system may anticipate the drafting of different reports with various degrees of summary in relation to the various recipients. The achievement of a complete and structured formalization of the information provided on a regular basis to management, is a pointer of the degree of development of the MCS.

— **Corrective action**

The decisions adopted by management during the periodic monitoring should also find a formalization suitable for facilitating an adequate and standardized disclosure at the appropriate levels of the corporate organization.

### 1.4.2. Structure of the reporting system

When defining and assessing a reporting system, it is necessary to pay attention to the analysis dimensions and to the related monitoring variables.

The identification of the analysis dimensions is of fundamental importance, in that it establishes the logics of selection, aggregation and organization of the information on a consistent basis with respect to the individual corporate entities, representing the necessary premise for the planning of reports suitable for satisfying management information requirements.

In this sense, the reports are normally structured hierarchically and can structure the information with respect to different analysis dimensions, which can typically be referred to the following aggregates:

- responsibility centres;
- corporate processes;
- strategic projects;
- type of products/services;
- customers of the company;
- distribution channels;
- geographic areas.

The “responsibility” dimension complies with the need to structure the main indicators (sales revenue, costs, margins, efficiency indicators, etc...) in relation to the corporate organizational structure, providing in this way parameters for the assessment of the results immediately referable to the organizational units which have produced them. For example, the value for the shareholders, in other words the EVA (Economic


Value Added), provided by the difference between the operating profit net of taxation and the cost of the capital employed, can be broken down in order to assess the value created by each individual SBU<sup>9</sup>. Or else, in order to provide a more immediate example, within a company, the sales could be attributed to different commercial areas (the branches, for example). Proceeding then towards areas of responsibility of a lower level, a report hierarchy is obtained which is representative of the corporate organizational segmentation.

The “corporate processes” dimension tends to break down the performances of the company in relation to the activities of the value chain, associating appropriate efficacy and efficiency indicators with each stage. This is the approach used by the method commonly known as Activity Based Costing (ABC), according to which the costs linked to the resources employed are not allocated to responsibility or cost centres, but to the individual activities. This perspective is particularly effective for gauging the performances of service companies or public bodies, where the costs of direct materials are typically absent, but the support activities cover a key role in the success of supply such as, for example, the handling of the relationships with the customer or the issue of a certificate within the timescales and according to the most efficient methods.

The “project” dimension is by contrast frequently used in companies who work to order, where the need to periodically monitor the stage of completion and the progressive cost of the job orders make it necessary to organize the indicators with respect to the series of activities which make up the project. This is the case of

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<sup>9</sup> By Strategic Business Unit we mean the unit of a company which is responsible for developing strategy in a specific area of business (SBA).



construction companies or top-of-the-range aircraft and water craft manufacturers. What is more, also within companies other than those mentioned, it may be appropriate to link the control activities and the related planning of the monitoring system to the project dimension as well when, due to strategic nature and uniqueness, the array of activities which shape it make a separate and independent management of said project advisable. Consider, for example, a project for the computerization and reorganization of the supply-chain of an industrial concern.

The segmentation by “product” is typical of the companies which are characterized by a wide range of products. This is the case of companies which produce popular consumer goods, where the use of reporting hierarchies based on the product comply with the needs to gauge the contribution of each product line or family to the company profit.

Of equal importance and often associated with the previous aspect, is the “customer” dimension, as a rule used within companies who direct their supply to various types of consumers or where the complexity of the needs and the related handling of the customers are essential for the company's success. Just think of the growing awareness of the importance of bank customers, in private banking in particular. In similar contexts, the information set and the result summaries structured by customer categories are of vital importance and lead to management activities specifically oriented towards customer satisfaction. The customer dimension, in association with the process dimension seen previously, is an important part of the so-called Balanced Scorecard model among other things, which supplements the economic-financial gaugings of the past performances with driver gaugings of the future performance: customer, management processes, learning and growth.

The “channel” and “geographic area” dimensions, in conclusion, make it possible to focus the attention of


management on the company's distribution network, rather than on its territorial arrangement. These are dimensions often used jointly with the customer and product dimensions, and are normally referable to companies operating in sectors with large customer bases. In fact, in conclusion, it is opportune to remember how the dimensions mentioned in the previous points do not exclude one another, but can be integrated in order to form more significant analysis and control aggregates which are more in keeping with the specific corporate situation. As a point of fact, these aggregates depend on the corporate complexity, the structure of the supply and in final analysis the information requirements of management.

In relation to the specific analysis dimensions indicated above, the reporting system should also permit the monitoring of the main value drivers, referable at least to the following elements or monitoring variables:

- economic and financial situation (at group, individual company, strategic business unit, etc level...);
- key success factors;
- business risks;
- levels of productivity and efficiency both operational (costs, timescales, physical output) and related to employment of capital (for example the ROI);
- competitive positioning;
- level of customer satisfaction;
- level of creation and circulation of the wealth of corporate know-how.

It is necessary to bear in mind, for a listed company, the need to include the trend of the stock on the market and of the financial market overall among the variables subject to on-going monitoring. What is more, the figure of investor relations manager is normally anticipated for this function.





The monitoring variables, as can be noted, have a different nature and can include both the economic-financial and operating data, and market data and additional information of a qualitative nature and can be summarized by means of indicators which previously we defined as key performance indicators which, simplifying, represent the elementary information cell of the reporting system. In order to guarantee the satisfaction of the information requirements of the users and generate appropriate conduct within the organization, it is also advisable that the information contained in the reports is not limited to just indication of KPIs, but is set up to:

1. contain historical data compared with standardized forecast data;
2. include comments prepared by those directly responsible with particular reference to the relationships existing between objectives achieved and objectives assigned by the company's senior management;
3. permit action by the managers.

Naturally it is possible to plan and assess the combination between analysis dimensions and monitoring variables merely in consideration of the individual corporate situations and the related organizational specificities. It is also only right to recall that an effective management of the reporting system may require the existence of a structure dedicated to the preparation of the reports, which is adequate both in dimensional terms and in terms of professionalism involved.

### **1.4.3. Disclosure of the information and users**


The MCS must clearly identify the recipients and the users of the system in its entirety and of the individual reports generated specifying the type of information intended for each user and the hierarchy of the information.

The users, in addition to the managers described in section 1.3., are all those who by appointment or role carried out manage the corporate levers which significantly influence the operating results and the creation of value for the company. In particular, users are always to be considered the Top Management of the company, the managers of the divisions, departments or other strategic unit relevant for the company, the CFOs and corporate controllers and the investor relations managers.

The grid of information targeted at each user must be planned consistently both with respect to the effective utilization for the same party (actual user), and with respect to the corporate function performed and the related decision-making capacity. The degree of efficacy of the MCS is in fact closely linked to the ability to provide the individual recipients with significant information with the degree of timeliness necessary for putting together adequate corrective action.

### **1.4.4. Frequency and timeliness of the reporting**

The MCS must be set-up and structured so as to guarantee adequate levels of frequency, corresponding to the number of reports produced by the manager in the unit of time and timeliness, corresponding to the time running between the occurrence of a significant corporate event and its representation in report form.



The first depends on the phenomenon subject to observation and on the nature of the activities carried out and therefore, in final analysis, on the information requirements of management; the second is strictly linked to the need to reduce the risk deriving from the failure to consider, within the appropriate timescale, a specific significant event. In this sense, timeliness is of particular importance for judging the performances of an auditing system. In fact, the delayed or failure to deliver significant information to the appointed manager (for example, an anomalous trend in sales returns to be forwarded to the sales manager) means that it is not possible to intervene in order to correct a critical situation and may lead to economic and commercial damage beyond the risk profile normally handled.

The need to provide timely information must also always be reconciled with the parallel need to provide significant and selected information: a redundant and fairly unselective executive information system, in fact, limits the efficacy of the auditing activities, also in the presence of adequate timeliness in producing the reports.

#### **1.4.5. Integration with the company's information and data processing systems**

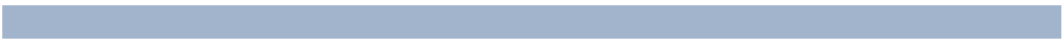
When evaluating the degree of integration of the MCS with the corporate information systems, it is indispensable to check that the information included in the reports can be reconciled with the results of the information systems used throughout the company and that said reconciliation is anticipated and regularly carried out, since it is a necessary procedure for controlling the correctness and the integrity of said information.

Specifically, the economic and financial data must be possible to trace back to the general accounts, while the data obtained from the analytical and industrial accounting systems and the budget systems must be consistent and interreferable both with respect to the final balances and with respect to the general accounting system.

The need for an overall consistency of the sources of information complies with the need for the reliability and comparability over time of the information contained in the reports. The integration of the MCS with other corporate information systems is generally an indication of the flexibility of the systems and the ability to adapt of the same to changes in the cognitive requirements of management over time.

The role which the MCS is able to perform depends strictly on the data processing choices made by the company, also with reference to a necessary appreciation of the costs/benefits ratio: if this is equipped with an ERP-type integrated system or if it has gone in the direction of using platforms which facilitate the create of company databases which are easy and flexible to use, the MCS will potentially be in a position to perform a role which is not just operative, but also a Business Intelligence and Decision Support role.

Over the last few years, moreover, the practice of outsourcing the company processes to specialized outside companies has become increasingly popular. The processes which are most frequently outsourced include the data processing services, as well as some administrative services. The management of these services by a specialized outside organization represents an important management opportunity



whose risks, on the other hand, are carefully assessed and handled with particular care. In this sense, the efficacy of the outsourced services depends directly on a number of factors, including:

- the outsourcing system in its entirety;
- the procedures existing at the supplier's in order to ensure the correct delivery of what is anticipated;
- the contractual relations existing which discipline the disbursement methods;
- the existence of staff dedicated to the handling of the contractual relationship with specific analysis and control procedures;
- the integration between the company system and that of the supplier.

#### **1.4.6. Developmental capacity**

The MCS is by its very nature subject to a continually evolving process. If, in fact, its function is to provide management with useful information for the governance of the company, it must be able to promptly assimilate the need to extend the monitoring to new business risks or new KSFs identified by management, or, in other cases, to change the degree of attention paid to the same or further improve the gaugability of certain phenomena.

In the event that, for example, the company extends or alters its activities by means of the creation or acquisition of new Business Units, the MCS must as a consequence be amended in order to guarantee an adequate monitoring of the new activities.

The suitability of the MCS to develop itself and maintain its function within an evolving context is linked to the ability of the system and its structures to process information which is different from that which is normally collected and processed, as well as from the availability of adequate sources of information.

## 2. Due diligence: areas of analysis and the process phases

As established by Articles 2.3.4, letter c) of the Regolamento di Borsa (Stock Exchange Rules), it is necessary that the sponsor declares, on the basis of a specific check carried out by an independent auditing firm, that the issuer and the main companies of its group have internally established a management control system capable of permitting the managers to periodically avail, on a timely basis, of a sufficiently detailed picture of the economic and financial situation of the company and any group it may belong to.

The analysis of the MCS in fact represents part of the due diligence activities<sup>10</sup> which must be carried out before the presentation of the application for admission to listing. This is a repetitive analysis process with the aim of assessing, on the one hand, the adequacy of the system in satisfying the information requirements of the company's management and, on the other hand, the overall reliability of the MCS in relation to the effective operational nature of the system and the correctness of the data and

information produced by the same (see Table 2). The activities require close collaboration, in relation to the specific skills, between the issuer, sponsors and auditing firm and any other outside consultant, and must be considered to be a unitary process, where the on-going comparison between the parties and the integration of the individual analysis tasks, rather than their segmentation, leads to better results. The assessment process normally follows the five stages illustrated below.

### 2.1. Description of the MCS and definition of the system objectives

The initial phase of the due diligence activities must be dedicated to the comprehension of the current system existing within the company by the sponsor and the independent auditing firm. In this phase, the company's management must present:

- a summary framework of the competitive context, the corporate strategy and the main key success and risk factors pertaining to the company which, together, determine management's information requirement. For this purpose, it is possible to supplement this disclosure framework also by means of the information contained in the Strategic Plan and the QMAT<sup>11</sup>.
- the MCS currently in operation, via a descriptive internal document suitable for illustrating the following points:
  - a) parties responsible for the system;
  - b) methods for formalizing the system;
  - c) structure of the reporting system and information content matter of the reports produced by the system, including:

<sup>10</sup> Analysis activities carried out by the operators involved in the listing process (sponsors, independent auditing firms, sundry advisors) vis-a-vis the company which intends to gain admittance to stock market listing, so as to check the existence of the formal and essential requisites necessary for admission to listing.

<sup>11</sup> The QMAT must be drawn up by the companies who present an application for admission to listing of their shares on the following segments managed by Borsa Italiana: Blue Chip, STAR and Standard.

- objective of the report;
  - recipient of the report;
  - analysis dimension;
  - variables subject to monitoring;
  - main indicators monitored (KPIs) and method of determination;
- d) timeliness and frequency of the reporting activities;
- e) integration with the information and data processing systems of the company;
- f) implementations anticipated in the near future.

Therefore, the internal descriptive document is a technical-descriptive document, prepared by the management and approved by the company Board of Directors, upon which sponsors and auditing firms launch their due diligence activities.

This document at the same time represents the main reference for the subsequent drafting of the Memorandum to be forwarded to Borsa Italiana<sup>12</sup>.

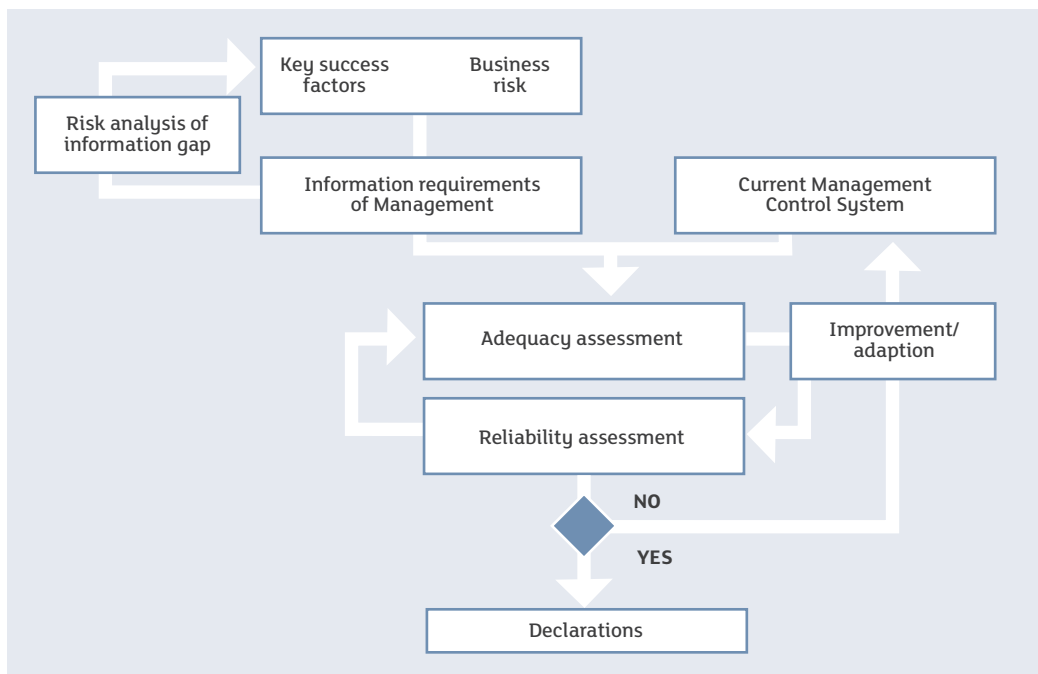


TABLE 2: process for assessment of the MCS

<sup>12</sup> In order to understand the distinction between internal descriptive document and Memorandum, see the specification provided in subsequent point 5 and Section 3.



## 2.2. Adequacy assessment

The objective of the second phase of the due diligence activities is the valuation of the adequacy of the MCS, with reference to the ability of the system to satisfy the information requirements of senior management supporting the company's operations.

The assessment is carried out according to a qualitative perspective in relation to the company specificities, the section-based features and above all else with respect to the priorities of top management. For this purpose, as anticipated, it is possible to acquire the necessary information, together with the internal descriptive document, also by means of the Strategic Plan and the QMAT. Another effective method also comprises directly involving the executives in defining the priorities of the information which they need. In this sense, it may be useful to conduct interviews with the managers in order to encourage critical reflection on the main risk and success factors of the company's activities and to check the effective coverage of the information available with respect to these variables. In other words, this involves checking that for each KSF or business risk a corresponding key performance indicator exists. Due to their significance and the possible impact on the company as a going-concern, specifically, the corporate risk factors must be subject to particular attention and must draw a considerable part of senior management's attention.

It is also advisable to ensure that the system is such that it permits not only a timely monitoring of the main key risk and success factors of the company, but also a correct assessment of the performance, understood as the achievement of the corporate objectives, both in relation to the historical performances and the budget expectations.

The areas of assessment, in conclusion, must be analysed not only in relation to the business model and the current organizational structure, but also in consideration of the company's growth plans, thereby guaranteeing the consistency between the MCS and the organizational needs which can be implicitly derived from the Strategic Plan.

A check-list has been attached, purely as an example, for the purpose of conducting the adequacy assessment activities according to a common and practical reference model.

## 2.3. Reliability assessment

The third phase concerns the assessment of the reliability of the MCS or rather the checking of the functioning of the system in relation to the effective operability of the procedures and the instruments associated with the planning and control functions, as well as the propriety of the data and the information produced.

In detail, the assessment activities can be divided up into two sub-phases:

a) Detection and assessment phase of the system operability

In this phase steps are taken to detect the running specifics of the system and the operating procedures effectively existing within the company. In particular, a compliancy check must be carried out on the system in existence with respect to the forecasts contained in the internal descriptive document, taking care to submit at least the following areas of investigation to a critical analysis:

- method of formalization of the system;
- structure of the reporting system and information content matter of the reports produced;
- level of disclosure of the information;
- observance of the frequency and timeliness of the reporting activities;
- integration with the company's information and data processing systems.

b) Assessment phase of the reliability of the procedures used for the preparation of the data and information produced by MCS

In this second sub-phase, the analysis concerns the assessment of the reliability of the procedures used for the preparation of the data and information produced by the MCS, partly by means of an analysis of the sources of information and the EDP data processing structure, in particular through an assessment of:

- the information flows from which the final data originates;
- the financial flows from which the forecast data originates;
- the reconcilable nature of the data with the general and management accounting information;
- the comparability over time of the information produced by the system.

Here it is once again opportune to recall that the adequacy and reliability analysis phases should be considered to be part of a single process finalized at formulating a complete critical opinion on the level of quality of the MCS operating within the company and, in this sense, close collaboration and continual exchange of information between the issuer, sponsor and independent auditing firm are key success factors of the due diligence activities.

A check-list has been attached, purely by way of indication, for the purpose of conducting the reliability assessment activities.



## **2.4. Sharing of the conclusions and definition of the Action Plan**

On the basis of the matters which have emerged during the due diligence process and in consideration of the areas of weakness and risk possibly identified, the company, with the assistance of the sponsor and the independent auditing firm, draws up an action plan targeted at defining the necessary corrective action for the adaptation of the MCS. In this connection, the implementation plans, the specific responsibilities and the execution times must be adequately illustrated.

## **2.5. Report on the MCS (Memorandum on the Management Control System)**

Once the assessment of the adequacy of the MCS has been completed, and any weak points of the system and the related action plan identified, the issuer draws up a descriptive document of the MCS (Memorandum on the MCS) according to the model indicated in Section 3 below. The Memorandum contains a summary of the information already present in the internal descriptive document, even if an additional drafting effort is hoped due to the different function assigned to the two instruments: the first, as stated below, for the purpose of providing Borsa Italiana S.p.A. with elements of information suitable for permitting the comprehension of the characteristic aspects of the system, the related criticalities and the improvement programmes established; the second designed in order to analytically and fully describe the MCS to the sponsor and the independent auditing firm, for the purpose of permitting the performance of accurate due diligence activities and the identification of any aspects to be submitted for review or further analysis.



# 3. The Memorandum on the Management Control System

The Memorandum on the MCS is the summary document, drawn up by the issuer, possibly assisted by the sponsor and the independent auditing firm, intended for Borsa Italiana with the purpose of describing the company's MCS. It represents an integral part of the documentation to be attached to the application for admission to stock market listing. As such, the Memorandum has an informative value and completes the filing presented for listing purposes.


The Memorandum is divided up into three parts intended respectively to:

- describe the MCS;
- provide a summary outline of any problems noted during the analysis activities;
- illustrate the plan for any action adapting the same.

## 3.1. Description of the MCS

In the first part, in addition to specifying the areas subject to analysis in terms of group layout, business areas and organizational levels (with detail of any systems under outsourcing), an analytical description must be made of the components of the MCS and the responsibilities reserved for those responsible for the system (Board of Directors, Managing Director, Board of Auditors, Internal Control Committee, operations manager and report managers). In particular, with regards to the components of the system, the following points should be developed:

- Description of the activities and the control procedures for the monitoring of the KSFs, of the business risks and the corporate performance (such as, for example, the procedures followed for the identification of the business risks);
- Description of the system of the technical-accounting control instruments, including specifically:
  - the analytical accounting system, which has the aim of breaking down the economic and equity accounts by responsibility centre;
  - the industrial accounting system, which re-processes the information provided by the analytical accounting system, for the purpose of calculating the costs and the financial balances of the activities and processes for gauging the overall efficiency of the operations;
  - the budgeting system;
  - other executive accounting instruments: ABC, Balanced scorecard, etc...
- Description of the executive accounting system dedicated to the collection, selection and distribution of the significant information for management and, in particular, the reporting system, describing in a concise manner the content matter of the reports by organizational position and specifically highlighting the following points:
  - objective of the report;
  - recipient of the report;
  - analysis dimension;
  - variables subject to monitoring;
  - main indicators monitored (KPIs) and method of determination.



In particular, in the presence of corporate groups, it is advisable to indicate the relationships and the information exchange flows existing between senior management, group corporate functions (for example a Group management control function) and peripheral corporate functions (management control functions of

the subsidiary companies). A concise description of the data processing systems supporting the activities for the production and distribution of the information and the level of automation of the system (hardware and software infrastructure) is also appropriate.

## 3.2. Illustration of the critical areas of the MCS

The second part of the Memorandum, completed with the assistance of the sponsor and the independent auditing firm, contains the description of the critical areas noted during the due diligence activities with regards to the MCS.

In fact, if problems emerge as a result of the work carried out - albeit of such an entity that they do not prevent the issue of the declaration - relating to the level of adequacy and reliability of the system, said problems must be indicated separately within this section, also highlighting the emerging risk associated with their persistence.

## 3.3. Comments on the Action Plan

In conclusion, the third part contains the analytical description of the action which the company intends to adopt in order to solve the relevant problems in the due diligence phase or in order to align the system to the developments scheduled in the forecast plans, explicitly indicating the managers appointed and the realization timescales anticipated.

It is therefore advisable, in correspondence with all improvement action identified, to explicitly indicate the problem for which the solution has been proposed, the manager appointed and the realization timescales anticipated. Mention is made in particular of the need to provide adequate indications regarding the action anticipated for correcting those problems or shortfalls affecting the MCS which may, if neglected, lead to economic damage beyond the risk profile normally managed and accepted.

# 4. Indicative check-list for the assessment of the Management Control System

An illustration of the areas to be submitted for analysis as part of the due diligence activities on the MCS is presented below. The list should not be considered to be exhaustive and merely provides a useful guide for subsequent analysis. Although separate for reasons of logical order, the adequacy and reliability assessment activities, in that they are part of a single process aimed at judging the overall quality of the MCS, are carried out on an integrated basis, repetitively and according to a work principle inspired by maximum collaboration between the company and the operators involved in the process.

## Indicative check-list for the assessment of the adequacy

### 1. Objectives of the system and analysis dimensions

- Overall, does the information produced by the MCS:
  - permit a clear and unequivocal gauging of the achievement of the corporate strategic objectives?
  - is it sufficient for the purposes of monitoring the performance of the company with reference to the relevant variables (key success factors and business risks)?
  - make it possible to keep under constant observation the known risk factors potentially capable of compromising the profitability and the corporate continuity?
  - is it sufficient for the purposes of providing a complete picture of the economic-financial situation of the company and the levels of efficiency, both operative and regarding the employment of capital?
  - permit the observations of the stage of development of the competitive positioning and the customer satisfaction of the company?
  - permit the timely identification of the significant corporate phenomenon and the related causes and make it possible to adopt expedient corrective action?
- Are the reports set up according to the relevant analysis dimensions (by SBU for example or by product, rather than by customer cluster, where the utility of this is recognized)?
- Are the analysis dimensions effectively adequate with respect to the type of business, the organizational complexity and the specificities of the information requirements of management?
- Have indicators (key performance indicators) been identified and formalized in relation to the key success factors and business risks individuated at the time of strategic planning?
  - Do they have an adequate distinguishing value?
  - Are they indicators linked to the generation of value?
  - Are they easy and unequivocal to interpret?
  - Are levels of comparison/objective defined for each KPI?
- Is there any other information, significant for management purposes, not produced by the system and what risk does the failed monitoring bring?
- Is the production of the information and the reports sufficiently rapid for the detection of significant phenomenon and in order to permit the adoption of corrective action?

- Is the frequency of production of the reports adequate with regards to the type of activity carried out, the nature of the KSFs and the business risks identified and their variability?
- Is each report always referable to at least one recipient with suitable responsibility and decision-making ability?

## 2. Parties responsible

- Does a clear definition exist of the responsibilities regarding the MCS?
- Are the levels of responsibility identified adequate?

## 3. Developmental capacity of the system

- Has the necessary action for the adaptation of the system in relation to the forecast development plans been assessed? Specifically:
  - Is the structure dedicated to the reporting activities adequate with respect to the forecast plans?
  - Is the information system capable of supporting the introduction of new and diversified reports?

## Indicative check-list for the assessment of the reliability

### 1. Formalization

- Does a descriptive document of the MCS and the internal running procedures of the system exist?
- Are the following points clearly defined?
  - objective and object of the system;
  - representation of the organization, the key functions, the core business and support processes, the effective functional relationships and the related information flows;
  - structure and arrangement of the system (strategic planning processes, budgeting system, reporting and operating control system, etc...) and perimeter of the MCS (which group companies are integrated within the system);
  - list of the reports and company documents produced by the system with explicit indication of the individuals responsible and the users (report/users grid), the access regulations and the production timing;
  - sources of information, procedures for supplying the reports and procedures for referring to the reports;
  - projects being realized;
  - approval of the internal descriptive document of the MCS by the Board of Directors and identification of the operations manager.

## **2. Structure of the reporting system and completeness of the information included in the reports**

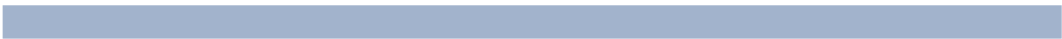
- Are all the reports anticipated by the internal descriptive document available?
- Is the information on the environmental context, anticipated by the internal descriptive document, included (for example: data on the sector performance, macro-economic data, market share performance of the competitors)?
- Are the profit and loss accounts and balance sheets anticipated by the internal descriptive document according to the pre-established layouts, included?
- Have the comparisons with the forecast and historical data according to the layouts comparable and referable to the financial statement formats been made?
- Have the KPIs identified in the internal descriptive documents according to the anticipated procedures, been included?
- Have the KPIs been determined as described in the internal descriptive document and do they express the distinguishing value required?
- Do the KPIs produced cover the analysis dimensions identified in the internal descriptive document?
- Are adequate comments present on the information illustrated both of an economic-financial and operational nature?

## **3. Disclosure and timing of the reports within the company**

- Have the reports been effectively circulated to the users as anticipated in the internal descriptive document?
- Are there users who do not receive the anticipated reports?
- What is the degree of use of the reports?
- Has action to be taken been identified? Has this action been adequately communicated to the individuals appointed to carry it out?
- What type of follow-up activities are carried out?
- Are the reports produced in accordance with the timescale and frequency anticipated?

## **4. Integration with the information systems and reliability of the information**

- Are the external sources of information, traceable within the companies and referable to the documental support, quoted?
- Are the internal sources from which the information has been taken, quoted and traceable?
- Have the KPIs been calculated in accordance with the procedures anticipated and on a consistent basis over time?
- In connection with the interim profit and loss accounts:
  - have the interim profit and loss accounts and balance sheets been drawn up in accordance



with the accounting standards applicable to the financial statements? In the event of differences regarding the basis of presentation (operational with respect to statutory), have appropriate reconciliations been made?

- are the balances stated reconcilable with the general accounting statements?
- are these reconciliations included in the reports and are they reliable?
- are the estimates made clearly indicated and justified?
- have the interim statements been made comparable with the financial statements?
- in the presence of Groups, is the process for the drafting of the interim statements applicable on a consistent basis to the individual entity or at least at individual SBU level?
- In connection with the forecast statements:
  - are the assumptions underlying the forecast statements clearly expressed and illustrated?
  - are the underlying assumptions consistent with the indications which emerged during the strategic planning phase?
  - has sensitivity analysis been carried out in relation to possible variances in the key parameters (reference exchange rates, interest rates, commodity prices)?
  - does the procedure for the formation of the forecast data involve the main corporate functions with regards to the determination of the main revenue and cost items?
  - have the underlying investment plans been included and illustrated?

- have adequate forecasts been drawn up for the determination of the working capital trend? Have the assumptions underlying these forecasts been stated clearly and specifically?
- have forecasts concerning the financial area been drawn up, consistent with the cash flow expectations?
- have the tax variables which interest the company been assessed?
- have the aspects associated with the financial market been assessed?

Has every significant operational aspect been considered also for the considerations which may be generated on the share price?

## **5. Integration with the information and data processing systems**

- What is the degree of integration between the various corporate information systems?
- Which are the company's data processing systems (hardware)?
- Which are the main applications programmes used (software)?
- Are the data processing systems of the various SBUs integrated? And at Group level?
- Do the data processing systems used permit an adequate degree of flexibility?

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