CHARTA LEARNING · INTERVIEW PREPARATION

KPIs, Performance Measurement and Financial Controls

Interview preparation summary · FP track

IN THIS SUMMARY

- Performance measures
- Controls

INT.FK.1.a · Performance measures

Choose a small set of KPIs for a team, define each one precisely, and say which are leading and which lagging, who owns each and how a dashboard and balanced scorecard would show them.

A key performance indicator (KPI) is a measure chosen because it tells a named person whether a specific objective is on track. Good KPIs have a precise written definition, one owner who can influence the number, a target or threshold, a reliable source and a link to a decision: if the number moves, someone knows what to do. Lagging measures such as revenue or profit report what has already happened. Leading measures such as qualified pipeline, order backlog or defect rate suggest what will happen next. Most teams need a few of each, kept to a handful per audience. A balanced scorecard, at overview, groups measures under financial, customer, internal process and learning and growth headings so that short-term profit is not read alone. A dashboard should show each KPI against target with a trend and an exception flag, with detail one step below. Usual mistakes are measuring what is easy rather than what matters, loose definitions, and forty metrics that nobody owns. Interviewers ask this to see whether you think about the decision a number supports.

WORKED EXAMPLE: HARLOW DAIRIES: ONE KPI, FOUR DEFINITIONS

Harlow Dairies is an invented chilled-food distributor. Last month it took 1,250 orders containing 8,400 order lines worth 6.20m in total. Of the orders, 1,150 arrived on time. Of the lines, 7,392 arrived on time. Deliveries on time were worth 5.27m. Only 1,075 orders arrived both on time and with every line complete. The operations director wants one on-time delivery KPI on the dashboard. Compare the possible definitions and recommend one.

Answer: The same month gives 92.0% by order, 88.0% by line, 85.0% by value and 86.0% on time and in full. Recommend on time and in full by order as the headline, with the others as diagnostics.

> **Interview tip:** Say that a KPI is only as good as its definition and show the point with the numbers: the same deliveries score 92.0% or 85.0% depending on the basis. Then name the owner, target and the decision the number supports.

INT.FK.1.b · Performance measures

Calculate ROCE, operating margin and capital turnover, link them to each other, and explain how ROIC differs from ROCE and why a return should be compared with the cost of capital.

Return on capital employed (ROCE) is operating profit (EBIT) divided by capital employed, usually total assets less current liabilities. It splits into two drivers: operating margin (EBIT divided by revenue) multiplied by capital turnover (revenue divided by capital employed). A grocer may earn a thin margin on fast turnover and a specialist maker a rich margin on slow turnover, and both can reach the same ROCE by different routes, which tells a manager where to look. Return on invested capital (ROIC) is usually after-tax operating profit (EBIT times one minus the tax rate) divided by invested capital, often equity plus debt less cash. Because ROIC is after tax it can be compared with a post-tax cost of capital: a business creates value only when its return is above that cost. Interviewers ask this to test whether you can calculate, decompose and interpret. Usual mistakes are using net profit with capital employed, mixing pre-tax returns with post-tax costs, and using year-end rather than average capital without saying so.

WORKED EXAMPLE: ALDWYN CASTINGS: DECOMPOSING ROCE AND MOVING TO ROIC

Aldwyn Castings is an invented foundry. For the year it has revenue of 150.0m and EBIT of 18.0m. Total assets are 210.0m and current liabilities 50.0m. Equity is 100.0m, borrowings 55.0m and cash 15.0m. Tax is 25% and the post-tax cost of capital is 9.0%. Use year-end balances. Find ROCE, its two drivers, ROIC, and the effect on ROCE of releasing 10.0m of capital from working capital.

Answer: ROCE is 11.25%, made of a 12.0% margin and 0.94 times turnover. ROIC is 9.64% against a 9.0% cost of capital. Releasing 10.0m of capital lifts ROCE to 12.0%.

Interview tip: Say the formula, name the base for capital employed, then split the ratio into margin and turnover before commenting. Finish by saying which ratio you would compare with a post-tax cost of capital and why.

INT.FK.1.c · Performance measures

Calculate EBITDA cash conversion, explain why EBITDA growth can hide weak cash, and recognise common ways that targets and incentives are gamed and how to design against them.

EBITDA is a convenient profit measure, but it leaves out the cash a business must spend to stand still: capital expenditure and the build-up of working capital. EBITDA cash conversion is therefore often measured as EBITDA less capex less the increase in working capital, divided by EBITDA. Definitions vary between firms, so state yours. A business can grow EBITDA while conversion falls if receivables or inventory grow faster than sales, which sometimes signals aggressive terms or pulled-forward sales. When pay is tied to one measure, people respond to the measure: revenue pushed into the quarter with discounts, costs capitalised, spending delayed or adjustments argued upward. Good design uses a balanced set of measures, includes a cash or quality counter-measure, avoids cliff-edge payouts, sets targets from an agreed baseline and reviews adjustments independently. Interviewers ask this to see whether you read profit alongside cash and think about behaviour. Usual mistakes are quoting EBITDA growth alone and treating a target miss as only an operating problem.

WORKED EXAMPLE: CORVIN PLASTICS: EBITDA UP, CASH CONVERSION DOWN

Corvin Plastics is an invented moulding company. In year 1 it reports revenue of 200.0m, EBITDA of 24.0m, capex of 9.0m and an increase in working capital of 2.0m. In year 2 revenue is 216.0m, EBITDA 27.0m, capex 9.5m and the increase in working capital 8.0m. Receivables were 30.0m at the end of year 1 and 36.5m at the end of year 2. Use a 365-day year. Measure EBITDA cash conversion, say what it shows and what you would ask next.

Answer: Conversion fell from 54.2% to 35.2% while EBITDA rose 12.5%, because receivable days rose from 54.8 to 61.7. I would ask about terms and year-end sales before accepting the growth.

Interview tip: State your conversion definition first. Then give both years, say that the headline improved while cash worsened, and point to the line that explains it. End with the question you would take to the commercial team.

INT.FK.2.a · Controls

Explain internal controls over financial reporting in outline, distinguish preventive from detective controls, and apply segregation of duties to a payments process.

Internal controls over financial reporting are the policies and checks that make the accounts reliable and protect assets. They are usually described as authorisation (who may approve), recording, custody of assets and reconciliation, and as preventive (stopping an error, such as a system approval limit) or detective (finding it afterwards, such as a bank reconciliation). Segregation of duties means no single person can initiate, approve, record and hold the asset for the same transaction, so a mistake or fraud needs a second person to be involved. In a payments process the classic conflicts are creating or changing a supplier and releasing payment to it, and entering an invoice and approving it. Where a small team cannot fully separate duties, compensating controls such as independent review of supplier changes help. A control is tested by sampling and counting exceptions against a tolerance, and an exception cluster points to a design gap. Interviewers ask this to test sense of risk and the ability to explain controls simply. Usual mistakes are listing controls without the risk they address and treating review as a signature.

WORKED EXAMPLE: BRINDLE LOGISTICS: TESTING A SECOND-APPROVAL CONTROL

Brindle Logistics is an invented haulage firm. Policy says every supplier payment above 10k needs a second approval before release. Internal review tests 60 payments with a combined value of 1,245.0k and finds 4 with no second approval, worth 14.2k, 22.0k, 11.5k and 31.8k. The team tolerates a deviation rate of 5%. Three of the four exceptions were paid to suppliers whose bank details had been changed that week by the clerk who released the payments. Assess the control and say what to do.

Answer: The deviation rate is 6.7% against a 5% tolerance and the exceptions are worth 79.5k. The cluster around bank changes points to a segregation gap, so I would verify the four payments and separate change from release.

> **Interview tip:** Give the rate, compare it with the tolerance, then say what the pattern suggests before proposing fixes. Naming the risk (a payment to the wrong account) shows you understand why the control exists.

INT.FK.2.b · Controls

Prepare and read a bank reconciliation, separate timing items from items needing adjustment, and describe how reconciliations and month-end routines support the audit.

A reconciliation compares two independent records of the same thing and explains every difference. The best known is the bank reconciliation: the cash book balance against the bank statement balance. Timing items such as payments issued but not yet cleared and receipts banked but not yet shown need no ledger entry because they will clear. Items the bank knows and the ledger does not, such as charges or direct debits, need a ledger entry, and ledger errors need correcting. A good reconciliation ends with a zero unexplained difference, is prepared by someone other than the person posting cash, is reviewed and signed with a date, and ages its open items so stale cheques or old suspense balances are chased. The same logic applies to receivables, payables, payroll and intercompany balances at month end. For the audit, tidy reconciliations with evidence, a close checklist and a single contact reduce queries and show that the balances are controlled. Interviewers ask this to test basic accuracy. Usual mistakes are plugging a difference and ignoring ageing.

WORKED EXAMPLE: PELHAM RETAIL: RECONCILING THE BANK TO THE LEDGER

Pelham Retail is an invented shop chain. At month end the bank statement shows 201.3k and the cash ledger 184.6k. Payments of 22.4k have been issued but not yet cleared, including one of 9.8k issued 52 days ago. Takings of 5.1k were banked on the last day and are not yet on the statement. Bank charges of 0.6k appear on the statement but not in the ledger. Reconcile the two balances and say what to do next.

Answer: Both balances reconcile to 184.0k with nothing unexplained. One journal is needed for the 0.6k charge and the 9.8k payment issued 52 days ago must be chased.

> **Interview tip:** Say which items are timing and which need a journal, then state the proof that both sides agree. Mention ageing and independent review; they show you think about control, not just arithmetic.

INT.FK.2.c · Controls

Describe the risks in a forecast or model, the governance that limits them, and the finance team's role in preventing errors and fraud, including the fraud triangle and escalation.

Forecasts carry risks of three kinds: honest error such as a formula that misses a row, bias such as optimism or sandbagging because of targets, and deliberate manipulation. Governance limits them: a named owner, version control, change logs, input cells separated from formulas, check totals that must equal zero, a second person who reperforms key calculations, tracking of forecast accuracy and bias over time, and clear sign-off before numbers go to lenders or the board. For fraud, the fraud triangle says it needs pressure, opportunity and rationalisation. Finance reduces opportunity through segregation of duties, approvals, independent review of manual journals and supplier changes, and reduces pressure by setting realistic targets and a safe route for concerns. When asked to bend a number, a good finance partner explains the principle, offers a legitimate alternative, and escalates to a manager or compliance if pressed. Interviewers ask this to test ownership and integrity. Usual mistakes are trusting a model because it looks professional and keeping quiet about a request that feels wrong.

WORKED EXAMPLE: ESKDALE RETAIL: A RANGE ERROR IN THE FORECAST

Eskdale Retail is an invented homeware chain. Its twelve monthly revenue forecasts in millions are 18.2, 17.6, 19.4, 19.0, 20.1, 19.8, 18.9, 19.5, 20.6, 21.3, 24.8 and 26.4. The model's annual total uses a sum that stops at November. Costs are driver-based and correct, and contribution on extra revenue is 35%. Find the size of the error, its effect on profit and how it should have been caught.

Answer: The model total is 219.2m against a correct 245.6m, an understatement of 26.4m and 9.24m of profit. A check cell and independent review would have caught it.

> **Interview tip:** Quantify the error first, then say how it should have been caught. Treat honest error, bias and manipulation as separate risks and end with the permanent control you would add.

Summary of the Charta interview-preparation topic. Companies and figures in the examples are invented. Draft content, not yet expert reviewed.